Sharpening the Concept of Tax Literacy as an Effort to Improve Tax Compliance

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Abstract

The self-assessment system used by many countries raises the issue of non-compliance in the taxation sector. According to motivational posturing theory, commitment of the taxpayers can be gained by focusing on education and service delivery. Therefore, tax literacy is believed to be able to increase tax compliance. Unfortunately, studies that specifically study tax literacy are still rarely found. This article aims to sharpen the existing concept of tax literacy, especially in the context of raising tax compliance. This article uses a qualitative method, where the researcher summarizes and presents the condition of the knowledge of tax literacy to this day. In this article, the researcher sharpens three dimensions of tax literacy. First, tax literacy is related to the taxation knowledge of the taxpayers, namely general, procedural, and legal knowledge. Second, tax literacy is related to the taxpayers' personal values, which is related to their interest in reading about taxation. Third, tax literacy is also related to the social values of taxpayers, which is related to the service provided by tax authorities to taxpayers, specifically in providing the ease of tax administration. With this article, hopefully the tax authorities—especially in developing countries—will pay more attention to the important issue of tax literacy so that they can design efficient policies in an effort to increase tax compliance.

Keywords: Tax Literacy, Tax Compliance, Reading Interest, Tax Knowledge, Ease of Tax Administration

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INTRODUCTION

According to Hauptman, Gurarda, and Korez-Vide (2015), the government often focuses on increasing revenue, thus, ignoring other crucial issues, namely the voluntary compliance of taxpayers. In fact, although the Directorate General of Taxes has succeeded in collecting state revenues more than the target set in 2021 and 2022, the rate of submission of Annual Notification letters (SPT) has never reached 100%. Moreover, although the Directorate General of Taxes has achieved the target, the ratio of tax revenues to Gross Domestic Product (GDP) in Indonesia is still lower than other G20 countries (Siswanto, 2022).

Tax compliance—whether it is the compliance to pay or to report—is still an important issue that needs to be addressed in Indonesia. If the issue of non-compliance with tax is still concerning, taxpayers will grow up in an environment filled with distrust. It is feared that non-compliance can become a normalized thing for taxpayers and is no longer seen as something that shouldn’t be done (Alasfour, 2019).

Table 1
The ratio of Tax Revenue to GDP and Formal Compliance Level of Taxpayers in Indonesia in 2018 - 2022

<table>
<thead>
<tr>
<th>Ratio Type</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance in submitting tax report</td>
<td>71.10%</td>
<td>73.06%</td>
<td>77.63%</td>
<td>84.07%</td>
<td>83.20%</td>
</tr>
<tr>
<td>Tax revenue to GDP</td>
<td>10.24%</td>
<td>9.7</td>
<td>8.3</td>
<td>9.1</td>
<td>10.40%</td>
</tr>
</tbody>
</table>

| Data Source: Ministry of Finance of the Republic of Indonesia |

According to De Clerq (2021), tax literacy needs to be continuously improved in order to increase tax compliance. In fact, tax literacy is considered one of the key factors that determine tax compliance so the level of public tax literacy needs to be considered (Nichita, et al., 2019). However, dealing with taxation problems in developing countries such as Indonesia is certainly a challenge that we must face because the literacy level of the public as a whole is still not too good.

Although studies related to tax literacy are increasing, specific studies on tax literacy itself are rarely found. This article completes the existing concept of tax literacy, especially in the context of increasing tax compliance. Therefore, this article can provide ease to other researchers that want to research further about tax literacy and its relation to tax compliance. With this article, tax authorities can also pay more attention to the important issue of tax literacy so that it is possible to design efficient policies to increase tax compliance, especially in developing countries like Indonesia.

DISCUSSION

Tax compliance

Taxpayers are considered to comply in carrying out their tax obligations if they register themselves to tax authorities, report their income and expenses accurately and on time, and pay the accurate total of tax in accordance with the applicable tax regulations in their country (Nagel, Rosendahl Huber, Van Praag, and Goslinga, 2019; Onu & Oats, 2016; Timothy & Abbas, 2021).

However, the use of the self-assessment system by many countries raises the issue of non-compliance in the taxation sector because the tax system authorizes taxpayers to assess, calculate, and pay their tax obligations in accordance with applicable tax regulations (Bornman & Ramutumbu, 2019; Faizal, Palil, Maelah, & Ramli, 2017). According to Nkundabanyanga, Mvura, Nyamuyonjo, Opiso, & Nakabunye (2017), this is a
common occurrence because rational taxpayers tend to report a lower income and/or report larger expenses than the actual condition. The size of the area, the total population, the dynamics of economic activity, and also the comparison between the number of taxpayers and tax authorities in Indonesia are certainly a challenge for tax authorities in Indonesia to enforce tax regulations (Anggadini, Surtikanti, Bramasto, & Fahrana, 2022).

Basically, taxpayers’ compliance is a psychological contract between taxpayers and the government. Therefore, the government needs to understand the factors that affect the compliance of taxpayers (Prasetyo, Adi, & Damayanti, 2020). However, tax compliance is a complex issue, and it is affected by many factors (Onu, Oats, & Kirchler, 2018).

According to Musimenta (2020), tax compliance can be improved by increasing tax knowledge. If the level of information about tax and/or the level of tax knowledge is inadequate, taxpayers can create a number of their own perceptions. This perception can be a negative perception without a clear basis. This aligns with Konrad, Lohse, and Qari (2014), where taxpayers tend to make decisions regarding their tax compliance based on their own perceptions.

However, Braithwaite (2003) once proposed a motivational posturing theory. According to them, taxpayers’ attitude also needs to be managed when tax authorities want to change or want to get an explanation regarding the behaviour of paying taxes. There are 5 motivational postures that need to be paid attention to, namely commitment, capitulation, resistance, disengagement, and game playing. All these motivational postures are basically a link between beliefs and attitudes that are consciously owned and shared openly by each individual.

According to Onu, Oats, and Kirchler (2018), internal motivation (commitment) basically has long-term benefits. On the other hand, extrinsic motivation (taxpayers’ perception of tax sanctions) that is too high can decrease internal motivation in the long run. Commitment itself basically reflects the belief in a certain tax system and the moral obligation to carry out tax obligations. In this case, taxpayers will have the belief that paying their taxes is the right thing to do and is a responsibility that must be accepted by everyone. With this commitment, taxpayers have good intentions to carry out their tax obligations. In simple terms, commitment can be described as tax compliance itself.

If there is no commitment and tax non-compliance continue to increase, the attitude of non-compliance can negatively affect the fiscal contract between the government and the community, which can negatively affect the adequacy of government revenues to ensure sustainable development of the country (De Clerq, 2021). Therefore, the tax authority must identify efficient strategies to improve the tax compliance of taxpayers (Nichita, et al., 2019).

Table 2
Factors of Tax Compliance

<table>
<thead>
<tr>
<th>Researcher(s)</th>
<th>Year</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Braithwaite</td>
<td>2003</td>
<td>Motivational postures, which are a link between beliefs and attitudes, can affect taxpayers’ compliance</td>
</tr>
<tr>
<td>Braithwaite</td>
<td>2009</td>
<td>Regulatory pyramid that can be used for improving taxpayers’ compliance according to their motivational postures</td>
</tr>
<tr>
<td>Konrad, Lohse, Qari</td>
<td>2014</td>
<td>Taxpayers’ perception of taxation can affect taxpayers’ compliance</td>
</tr>
<tr>
<td>Brizi, Glacomantonio, Schumpe, Mannetti</td>
<td>2015</td>
<td>Social value orientation of taxpayers can affect taxpayers’ compliance</td>
</tr>
<tr>
<td>Onu, Oats, Kirchler</td>
<td>2018</td>
<td>Taxpayers’ internal motivation to fulfill tax obligations has long-term benefits to increase taxpayers’ compliance</td>
</tr>
</tbody>
</table>
Nagel, Rosendahl Huber, Van Praag, Goslinga 2019 Enforcement efforts that are prioritized are those that are carried out based on mutual respect and trust between taxpayers and tax authorities

Musimenta 2020 Proved that tax knowledge and simplicity of tax system can improve taxpayers’ compliance

De Clerq 2021 Tax literacy, which includes tax knowledge (education), personal values, and social values, are important for improving taxpayers’ compliance

Source: Author’s Own

LITERATURE REVIEW

Tax Literacy

Enforcement efforts that are prioritized are those that are carried out based on mutual respect and trust between taxpayers and tax authorities (Nagel, Rosendahl Huber, Van Praag, & Goslinga, 2019). In line with this, according to Nichita, et al. (2019), the voluntary compliance of taxpayers is more capable of creating economic stability. With this, commitment is a motivational posture that needs to be planted in every single taxpayer.

Braithwaite (2009) proposed a regulatory pyramid that provides a number of options for the government in responding to the non-compliance behaviour of taxpayers as said above. According to her pyramid, the government only needs to give education and service delivery to emphasize commitment – which means that the government needs to enhance convenience, access, choice, and control related to taxation. With this, tax authorities can provide good comfort, access, and control to their taxpayers and self-regulation of the taxpayers will enhance.

According to Eaton (2010), education can be separated into three categories, namely formal, non-formal, and informal education. Formal education is an organized education system that has a certain curriculum. Furthermore, non-formal education is an organized education system and has the possibility of a certain curriculum, however, it tends to build the skills and/or capacity of someone instead. Lastly, informal education is an education that is obtained without an organized system or a certain curriculum. This type of education is generally obtained through experiences from friends and parents, reading and/or self-learning, etc.

The efforts for tax education are certainly not limited to the people who already meet the criteria of taxpayers, but also taxpayers in future generations (De Clerq, 2021). The awareness of the importance of tax is needed to be instilled in the minds of every young generation, even as they are still in school (Sutrisno & Setyowati, 2017). This is in line with statements from Ali and Ahmad (2014), where education also needs to be targeted to the young generation to ensure that they fulfill their tax obligations in the future. However, tax education only describes a small portion of the tax literacy concept as a whole.

According to Nichita et al. (2019), tax literacy is the skill of taxpayers in understanding their tax rights and obligations, as well as to use such knowledge and skill to fulfill their obligations appropriately in accordance with applicable tax regulations. On the other hand, Herawati, Yasa, Resmi, and Yastini (2022) define tax literacy as a set of knowledge and a person’s ability to read anything related to tax and to understand and follow up information related to fulfilling tax obligations.
Table 3
Definition of Tax Literacy

<table>
<thead>
<tr>
<th>Researcher(s)</th>
<th>Year</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nichita et al.</td>
<td>2019</td>
<td>Tax literacy is the skill of taxpayers in understanding their tax rights and obligations</td>
</tr>
<tr>
<td>De Clerq</td>
<td>2021</td>
<td>Tax literacy includes:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- core foundations (literacy, numeracy, and digital literacy)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- transformative competencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- knowledge (disciplinary, interdisciplinary, epistemic, and procedural)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- skills (cognitive and emotional)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- attitudes and values of taxpayers (personal and social)</td>
</tr>
<tr>
<td>Herawati, Yasa, Resmi,</td>
<td>2022</td>
<td>Tax literacy is a set of knowledge and a person’s ability to read anything related to tax and to understand and follow up information related to fulfilling tax obligations</td>
</tr>
<tr>
<td>Yastini</td>
<td></td>
<td>Source: Author’s Own</td>
</tr>
</tbody>
</table>

Based on the results of the qualitative research that they wrote with the literature review method and focus group discussion, De Clerq (2021) found that tax literacy includes 5 things, which are core foundations, transformative competencies, knowledge, skills, and the attitudes and values of taxpayers.

First, the basic competencies of taxpayers include literacy, numeracy, and digital literacy. In the context of taxes, having tax literacy means having enough information about tax so that taxpayers can use this information to fulfill their tax obligations. Next, numeracy in the context of taxes is the ability of taxpayers in calculating their taxes independently. Then, digital literacy means their knowledge of using technology. Generally, Generation Z tends to have a higher digital literacy because they grew up in the digital era and tend to trust their own ability in facing matters related to digital technology (You-Kyung, 2021). In the context of taxes, having good digital literacy allows taxpayers to use technology to pay and report their taxes online.

Second, the transformative competency of taxpayers includes the ability of taxpayers in creating values and take responsibility where taxpayers must understand their role in taxation.

Third, tax knowledge includes disciplinary, interdisciplinary, epistemic, and procedural knowledge. Disciplinary knowledge is the understanding of the basic concepts of tax, tax penalties, and how to calculate tax obligations, other general tax knowledge, and also the knowledge of public finance and that all taxes are the source of the government’s income. Furthermore, interdisciplinary knowledge is related to financial ability, starting from managing finances and/or using financial services. Epistemic knowledge is the ability of taxpayers to overcome tax issues, the trust that tax authorities are fair – and thus can be trusted – and the understanding of the problems in the existing tax system. Procedural knowledge is the knowledge of when and how taxpayers must pay their taxes and report their taxes. This includes knowing the type of supporting documents that need to be prepared and knowing how to update their own data in the database of tax authorities.

Fourth, the ability of taxpayers includes cognitive, social, and emotional abilities. Cognitive abilities mean that taxpayers are aware of the factors that affect tax decisions. On the other hand, social and emotional abilities include the belief of taxpayers that they can fulfill their own tax obligations.
Fifth, the attitude and values of taxpayers include their personal and social attitudes and value. Personal attitude and values include the interest of taxpayers in learning about taxes, the effort to continue following the development of news and/or tax regulations, and their motivation to continue following the development of news and/or tax regulations. On the other hand, social attitudes and values include the understanding of taxpayers in the importance of tax, and the expectations of taxpayers when they pay tax – whether it is the expectation to obtain adequate service from the government or the expectation that the government cares about the needs of their people – and also the taxpayers’ desire to do the right thing as a part of the community.

If reviewed further, the concept proposed by Braithwaite (2009) and De Clerq (2021) to increase the compliance of taxpayers are connected, where both proposed 2 important dimensions in tax literacy: the tax knowledge that can be obtained from tax education; and the attitude and value of taxpayers that depend on the service provided by tax authorities. Therefore, this research will sharpen the concept of tax literacy in these two dimensions.

**Tax Knowledge**

Tax knowledge is one of the dimensions of tax literacy that is very necessary and very possible to continue carrying out in improving tax compliance (De Clerq, 2021; Inasius, 2018). This can happen because tax knowledge is seen as an important factor in helping taxpayers feel more familiar with applicable tax regulations which can help increase tax compliance (Bornman & Ramutumbu, 2019). In fact, not just from the side of taxpayers, the existence of the base of tax knowledge used by tax authorities can help them work faster and more effectively (Setyaningrum & Setyowati, 2018).

The knowledge of the tax system indicates that taxpayers have the tax information and can process this information (Alm, 2018). Based on the quantitative research by Kosonen and Ropponen (2015), tax regulations for taxpayers have been proven to decrease the mistakes of taxpayers significantly. On the contrary, non-compliant taxpayers tend to not know the basic concepts of tax, where the level of taxpayers’ compliance can decrease by 8-9% when they consider paying and reporting tax to be a difficult task (Santoro, 2021). Because of this, tax knowledge is often considered as an important factor in researching the compliance behavior of individual taxpayers, where their compliance can increase if the taxpayers have adequate tax knowledge (Mustapha, Rildwan, Sadiq, Moronke, Ahmad, & Rahmon, 2021).

In this modern era, tax knowledge also includes the ability of taxpayers in understanding the e-Filing system which is currently used by taxpayers in fulfilling their tax obligations (Mustapha, Rildwan, Sadiq, Moronke, Ahmad, & Rahmon, 2021). This is in line with the importance of digital literacy as one of the basic competencies that taxpayers need to have (De Clerq, 2021).

<table>
<thead>
<tr>
<th>Researcher(s)</th>
<th>Year</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bornman and Ramutumbu</td>
<td>2019</td>
<td>Tax knowledge includes:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- General tax knowledge, which is the understanding the importance of paying taxes and understanding the effects of taxes on finances.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Procedural tax knowledge, which is the understanding of tax compliance procedures, such as knowing the deadlines for paying and</td>
</tr>
</tbody>
</table>
reporting taxes, and knowing how to pay and report taxes.
- Legal tax knowledge, which is related to the understanding of tax regulations.

<table>
<thead>
<tr>
<th>De Clerq</th>
<th>2021</th>
<th>Tax knowledge includes:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>- Disciplinary knowledge, which is the understanding of the basic concepts of tax and the knowledge of public finance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Interdisciplinary knowledge, which is related to financial ability, starting from managing finances and/or using financial services.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Epistemic knowledge, which is the ability of taxpayers to overcome tax issues.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Procedural knowledge, which is the knowledge of when and how taxpayers must pay their taxes and report their taxes.</td>
</tr>
</tbody>
</table>

| Mustapha, Rildwan, Sadiq, Moronke, Ahmad, Ramon | 2021 | Tax knowledge includes the ability of taxpayers in understanding the system to fulfill their tax obligations. |

Source: Author’s Own

Like the essence of taxation knowledge grouping conducted by De Clerq (2021), Bornman and Ramutumbu (2019) simply group tax knowledge into three groups: general, procedural, and legal tax knowledge. General tax knowledge is related to the fiscal awareness of taxpayers, such as understanding the importance of paying taxes and understanding the effects of taxes on finances. Good general tax knowledge makes taxpayers understand fiscal regulations better and have a better financial literacy as well. Furthermore, knowledge of procedural taxation is related to understanding tax compliance procedures. In this case, every taxpayer must be aware of the process and responsibility to be able to fulfill their tax obligations, such as knowing the deadlines for paying and reporting taxes, and knowing how to pay and report taxes. Finally, legal tax knowledge is related to the understanding of tax regulations. Tax regulation often changes and becomes more complex than the general rule of law. The existence of legal tax knowledge allows taxpayers to understand tax regulation in the conceptual and technical sense, namely the ability to understand tax concepts and the ability to apply them appropriately in the situation of every taxpayer.

**Interests in Reading About Taxation as an Embodiment of Personal Attitudes and Values**

Reading interest in topics about taxation is a tangible manifestation of the dimensions of attitudes and personal values in tax literacy. According to De Clerq (2021), personal attitudes and values include the taxpayers’ interest in learning about taxes and trying to keep following the development of news or tax regulations. Furthermore, academics also emphasize that the need for personal values, such as being open and having high curiosity, is an important thing and needs to be instilled in individual characters. (De Clerq, 2021; Watson, 2019). Basically, curiosity is what motivates intellectual virtue, where this curiosity can be represented through the interest in reading (Chen, Darst, & Pangrazi, 1999; Watson, 2019). Because of this, the existence of good personal attitudes and values helps to improve the tax literacy of taxpayers (De Clerq, 2021).
On the other hand, the reading interest on taxation is one form of informal education that was initiated by Eaton (2010). The reading interest in tax topics is in line with the concept of lifelong learning, where this concept is seen as an opportunity to overcome the limitations of the current educational paradigm because one can continue to adapt following changing knowledge and information (Chae & Kang, 2018). This active learning strategy is proven to have a better outcome (Parmeelee, Roman, Overman, & Alizadeh, 2020). Unfortunately, according to the data from UNESCO, the reading interest of Indonesian is still very low, which is just 0.001 per cent.

**Figure 1**

Interests in Reading About Taxation as an Embodiment of Personal Attitudes and Values

Source: Author's Own

The interest of individuals becomes a very important factor in reading because interests can make someone feel more motivated in carrying out certain task (Clinton-Lisell, 2021; Renninger & Hidi, 2017). In line with the concept of reading itself, reading interest is also considered as a form of learning that can contribute to one’s happiness because their interest can help the reading activity itself become more fun (Chae & Kang, 2018; Linnenbrink-Gracia, Patall, & Messersmith, 2013). In other words, what determines the reading interest of an individual is in line with the concept of personal attitude and values promoted by De Clerq (2021).

Individual interest is basically able to directly influence individual behavioural intention (Saragih, Setyowati, Hendrawan, & Lutfi, 2019). In this case, the presence of interest can even make reading articles about a difficult topic or with a language that is difficult to understand become much easier to be understood (Fulmer, D’Mello, Strain, & Graesser, 2015). Because of this, in the context of taxes, taxpayers who are familiar with tax issues tend to have higher tax compliance. This is certainly an important thing to pay attention to because of the changes in tax regulations as well as the issuance of new implementing regulations in the field of taxation which are still common in Indonesia.

If you pay attention, someone’s reading interest in the topic of taxation and knowledge of taxation has an interesting correlation, both of which are related to taxpayer tax information, thus making the taxpayers familiar with issues and regulations of taxes. Therefore, one’s reading interest on the topic of taxes should also be able to strengthen the effect of tax knowledge on taxpayers’ tax compliance.
The Ease in Tax Administration as an Embodiment of Social Attitudes and Values

Social values have an impact on a stronger commitment to the tax system and taxpayers’ confidence in paying taxes because taxpayers perceive that public welfare is a social responsibility as a community (Brizi, Giacomantonio, Schumpe, & Mannetti, 2015). According to De Clerq (2021), social attitudes and values are included in the scope of tax literacy. In this case, social attitudes and values include the expectations of taxpayers when fulfilling their tax obligations, where they can obtain adequate services from the government, and the expectation that the government cares about the needs of its people. Because of this, tax authorities need to continue to improve their services that they offer for their people (Ali & Ahmad, 2014). This is in line with the tax enforcement strategy according to Braithwaite (2009), where tax commitment to support voluntary tax compliance can be increased if the tax authorities can improve services to their taxpayers. Services for taxpayers can be carried out by providing information, training, and reminding deadlines for tax payments and/or tax reports, and providing free consultation to increase the psychological contract with taxpayers so that the feeling of mutual trust can increase (Antinyan, Asatryan, Dai, & Wang, 2021; Nagel, Huber, Van Praag, & Goslinga, 2019; Nichita, et al., 2019).

In short, if tax authorities provide adequate services for the taxpayers in fulfilling their tax obligations, from the process of calculating, paying, and even reporting taxes, then the awareness of taxpayers to fulfill their tax obligations can also improve (Alm, 2018). In this case, the ease in tax administration is seen as an adequate services from tax authorities that need to be given to taxpayers as mention before.

Figure 2
The Ease in Tax Administration as an Embodiment of Social Attitudes and Values

Ease in Tax Administration
• Ease in tax administration is seen as an adequate services from the tax authorities that need to be given to taxpayers (Alm, 2018).

Social Attitudes and Values
• Social attitudes and values include the expectations of taxpayers when fulfilling their tax obligations, where they can obtain adequate services from the government (De Clerq, 2021).

Source: Author’s Own

The ease of tax administration is an important thing. According to Anggadini, Surtikanti, Bramasto, and Fuhrana (2022), tax authorities have several options to increase state revenues, which include making a program that can ease taxpayers in paying taxes. Moreover, an effective and efficient tax administration system can create a synergistic environment between taxpayers and tax authorities, where taxpayers can comply with tax regulations voluntarily (Nkundabanyanga, Mvura, Nyamuyonjo, Opiso, & Nakabunye, 2017). To create a synergistic environment, taxpayers have to assume that tax authorities are a part of the community so that the social gap between taxpayers and tax authorities can be reduced (Brizi, Giacomantonio, Schumpe, & Mannetti, 2015; Casal, Kogler, Mittone, & Kirchler, 2016).
According to Anggadini, Surtikanti, Bramasto, and Fahrana (2022), the modernization of tax administration is needed so that tax obligations can provide an easy and simple process for taxpayers. On the other hand, the modernization of tax administration is also needed to increase the effectiveness and efficiency of tax authorities in collecting tax revenues (Setyaningrum & Setyowati, 2018). Currently, the modernization of tax administration in Indonesia is still being carried out, such as the presence of e-Billing, e-Payment, e-Filing, e-SPT, e-Form, and other tax applications. Therefore, compliance of taxpayers is again a concern due to this ongoing modernization of tax administration (Musimenta, 2020).

In addition, the existence of an income tax withholding system for employees in Indonesia can also increase the ease of tax administration for individual taxpayers who are employees. This aligns with the experiment results of Van Dijk, Goslinga, Terwel, and Van Dijk (2020), where the prepopulated tax returns system uses data from third parties to calculate personal income taxes to provide convenience and efficiency in tax administration.

The utilization of technology, communication, and information in tax administration certainly can increase the accuracy of reports from taxpayers, detect the effort of tax evasion, reduce tax compliance costs, and provide comfort for taxpayers so that the use of information technology can become an effort to strengthen the state capacity (Li, Wang, & Wu, 2020; Mascagni, Mengistu, Woldeyes, 2021). In fact, taxpayers who run businesses can adopt the use of information systems to fulfill their tax obligations (Martins & Picoto, 2020). Therefore, the innovation and utilization of technology to provide convenience in tax administration should continue.

On the other hand, the changes in tax administration systems mean that we need to educate, persuade, and encourage people to cooperate with these changes (Braithwaite, 2003). According to Nkundabanyanga, Mvura, Nyamuyonjo, Opiso, and Nakabunye (2017), the perception of the ease of tax administration can improve if the tax knowledge of taxpayers is also improved.

**Figure 3**

**Tax Literacy as an Effort to Improve Tax Compliance**

Source: Author’s Own
CONCLUSION

According to motivational posturing theory, commitment of the taxpayers can be gain by focusing on education and service delivery. Therefore, tax literacy is believed to be able to increase the commitment of taxpayers in effort to increase the voluntary compliance of taxpayers.

First, tax literacy is related to the tax knowledge of taxpayers. Simply put, tax knowledge includes the general tax knowledge, which is related to taxpayers’ fiscal awareness, the procedural knowledge which is related to taxpayers’ understanding about procedures for implementing tax obligations, and the legal knowledge which is related to taxpayers’ understanding about tax regulations.

Second, tax literacy is related to the taxpayers’ personal values and attitudes, which is related to the reading interest of taxpayers about taxation. Reading interest about taxation shows the interest of taxpayers in learning about taxes, making an effort in following the news and regulations of taxes, and being motivated to continue following news and regulations about taxes. Other than that, the reading interest on taxation also can increase information and/or taxpayer knowledge about taxes.

Third, tax literacy is also related to the social attitudes and values of taxpayers, which is related to the services provided by tax authorities to taxpayers to create convenience in tax administration. The ease in tax administration is believed to be able to decrease the social gap between taxpayers and tax authorities. Other than that, an interesting finding found is that the perception about the ease of tax administration will improve if the tax knowledge of taxpayers also improved.

With this article, tax authorities, especially in developing countries, hopefully will pay more attention to the important issue of tax literacy so that they can design efficient policies in the effort to increase taxpayers’ compliance. On the other hand, this article hopefully can also provide a clear picture about tax literacy and can become a reliable reference for the future researchers who study about tax literacy and tax compliance. The researcher also hopes that this article was able to describe the importance of tax literacy in supporting taxpayers’ compliance so that it can be studied further by other future researchers.

REFERENCES


