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The Effect of Tax Literacy and Tax System on Taxpayer Compliance with Tax Service Quality as an Intervening Variable

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Abstract. *The Republic of Indonesia aims to create a just and prosperous society in all aspects of national life. Taxes are a means of achieving this goal and financing national development for the public interest. Taxes contribute significantly to the state budget (APBN) as a means of supporting the success of Indonesia's development. Law Number 28 of 2007 concerning General Provisions and Tax Procedures states that taxes are mandatory contributions to the state made by individuals or entities that are coercive in nature, based on the law, without receiving direct compensation, and are used for state purposes for the prosperity of the people. Taxes are the primary source of development and financing for government expenditures by both the central and regional governments. The funding used for national development is substantial, and the funds used for this purpose continue to increase over time. Therefore, to meet this need, the government, through the Directorate General of Taxes (DGT), has established that taxes are an integral part of the sustainability of development plans. The government does not simply rely on foreign aid and loans for state funding. Taxes function as revenue (budgetary), where they are a crucial primary source of government revenue. Taxes are used to finance all expenditures by the central and regional governments. Furthermore, taxes serve as a tool to regulate government socioeconomic policies. The public can experience the role of taxes directly and indirectly in their daily lives. The importance of taxes in development requires increased tax revenue. Several facilities, such as education, transportation, healthcare, and public facilities and infrastructure, are sectors that receive government priority. Data shows that state revenue from taxes consistently accounts for over 70% of total state revenue. This increase is proportional to the rapid development of technology. For example, the current global development of information technology allows information to spread very quickly. Of course, the taxation aspect is not immune to the influence of the development and application of information and communication technology.*

Keywords: *Taxpayer Compliance; Tax Literacy; Tax Service Quality; Tax System.*

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1. Introduction

Taxes are the primary source of development and financing for government expenditures by both the central and regional governments. The funding used for national development is substantial, and the funds used for this purpose continue to increase over time. Therefore, to meet this need, the government, through the Directorate General of Taxes (DGT), has established that taxes are an integral part of the sustainability of development plans. The government does not simply rely on foreign aid and loans for state funding.

Taxes function as revenue (budgetary), where they are a crucial primary source of government revenue (Yuliatic & Fauzi, 2020). Taxes are used to finance all expenditures by the central and regional governments. Furthermore, taxes serve as a tool to regulate government socioeconomic policies. The public can experience the role of taxes directly and indirectly in their daily lives. The importance of taxes in development requires increased tax revenue. Several facilities, such as education, transportation, healthcare, and public facilities and infrastructure, are sectors that receive government priority. Data shows that state revenue from taxes consistently accounts for over 70% of total state revenue. This increase is proportional to the rapid development of technology. For example, the current global development of information technology allows information to spread very quickly. Of course, the taxation aspect is not immune to the influence of the development and application of information and communication technology.

The Directorate General of Taxes, as the tax revenue collection agency, is required to utilize technology to facilitate services and information delivery to taxpayers. The role of taxes is inextricably linked to the well-being of Indonesians. The Directorate General of Taxes has implemented several measures to improve and update the existing tax system in an effort to increase tax revenues from taxpayers. Efforts to increase tax revenues, of course, do not solely depend on the efforts of the government and the tax authorities, specifically the Directorate General of Taxes (DGT). The active participation of the public as taxpayers is crucial. The future of national development is largely determined by the role and responsibility of taxpayers. Taxpayers' awareness and willingness to fulfill their tax obligations significantly impact state revenues. The higher the taxpayer's tax awareness, the higher the tax revenues received by the central and regional governments. If taxpayers are aware of their obligations, this will impact regional tax revenues and, ultimately, the country's national development. Therefore, taxpayer awareness and compliance are crucial factors in achieving successful tax revenue collection in a country (Atarwaman, 2020). In reality, implementing the tax collection process is difficult to achieve as expected.

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Currently, efforts to improve taxpayer compliance are challenging, even though Indonesia's tax system adopts a self-assessment system, which grants taxpayers full authority to calculate, pay, and report their own taxes. This system will not work if taxpayers lack awareness of their tax obligations (Purnama and Ardini, 2021). Currently, taxpayer compliance levels in fulfilling their tax obligations are still considered too low. This is due to dissatisfaction with public services, low public literacy regarding tax laws, and, of course, uneven infrastructure development across regions, as well as a lack of awareness of taxpayer obligations. According to (Saputro, 2018), literacy is known to be related to a person's ability to read, understand, and act on information to make useful decisions in life. This can be interpreted as meaning that tax literacy relates to the overall knowledge and understanding of taxation possessed by taxpayers and how they use their information and knowledge. Therefore, to create a tax-conscious society, it is necessary to increase taxpayer literacy skills.

2. Research Methods

The approach used in this research is an explanatory approach using a quantitative approach. Explanatory research aims to explain and understand the relationships between the variables studied, particularly in the context of causal or cause-and-effect relationships. The quantitative approach refers to the positivistic paradigm, where research is conducted on a population with a specific sample using standardized tools. The obtained data is then analyzed quantitatively using statistical techniques, which aim to describe the phenomenon and analyze predetermined hypotheses (Sugiyono, 2019).

According to (Sukardi, 2021), correlational research involves collecting data to determine whether and how closely related two or more variables are. This research can determine the extent of the independent variable's influence on the dependent variable, along with the magnitude and direction of the relationship.

3. Results and Discussion

3.1. The Influence of Tax Literacy on Taxpayer Compliance

The test results show that Tax Literacy has a significance value of <0.001 with a coefficient value of 0.484. A significance value smaller than 0.05 indicates that Tax Literacy has a positive and significant effect on Taxpayer Compliance. Therefore, H1 is accepted.

The results of this study indicate that the higher a taxpayer's understanding of tax regulations, the higher their level of compliance in fulfilling their tax obligations. Tax literacy helps taxpayers understand tax procedures, reporting procedures, tax payments, and even tax sanctions in the event of violations.

The results of this study support the findings of Latuheru and Loupatty (2024), who stated that tax knowledge is a crucial factor in increasing taxpayer compliance. Furthermore, research by Surya and Hatta (2025) also explains that a good understanding of taxation can increase taxpayer awareness, thus encouraging them to fulfill their tax obligations more compliantly.

3.2. The Influence of the Tax System on Taxpayer Compliance

The test results show that the Taxation System has a significance value of 0.023 with a path coefficient of 0.200. A significance value smaller than 0.05 indicates that the Taxation System has a positive and significant effect on Taxpayer Compliance. Thus, H2 is accepted.

These results demonstrate that a simple, accessible, and technology-based tax system can improve taxpayer compliance. A good tax system can facilitate payment, reporting, and tax administration processes, thus encouraging taxpayers to fulfill their tax obligations.

The results of this study align with Anggraini's (2015) research, which states that an effective tax administration system can encourage increased taxpayer compliance. Modernizing the tax system is considered to have a positive impact because it makes it easier for taxpayers to fulfill their tax obligations.

3.3. The Influence of Tax Literacy on the Quality of Tax Services

The test results show that Tax Literacy has a significance value of 0.948 with a path coefficient of 0.008. A significance value >0.05 indicates that Tax Literacy has no significant effect on Tax Service Quality. Thus, H3 is rejected.

The results of this study indicate that taxpayers' level of knowledge does not directly influence the quality of services provided by tax authorities. Service quality is more influenced by internal organizational factors such as the quality of human resources, speed of service, service facilities, and the service system implemented.

The results of this study disagree with Syam's (2022) study, which stated that user perceptions of services can be influenced by their level of understanding of the services they receive. However, in this study, the quality of tax services is more influenced by institutional aspects than taxpayer literacy levels.

3.4. The Influence of the Tax System on the Quality of Tax Services

The test results show that the Taxation System has a significance value of 0.012 with a path coefficient of 0.300. A significance value less than 0.05 indicates that the Taxation System has a positive and significant effect on Tax Service Quality. Thus, H4 is accepted.

These results demonstrate that a sound tax system can improve the quality of tax services. The use of technology-based systems can expedite the service process, facilitate access to tax information, and increase the effectiveness of services provided to taxpayers.

The results of this study support Afifah's (2021) research, which states that modernizing the tax system can increase the effectiveness of tax services. Implementing a sound tax system can improve the quality of service to taxpayers.

3.5. The Influence of Tax Service Quality on Taxpayer Compliance

The test results show that Tax Service Quality has a significance value of 0.901 with a path coefficient of -0.021. A significance value >0.05 indicates that Tax Service Quality has no significant effect on Taxpayer Compliance. Thus, H5 is rejected.

These results indicate that the quality of tax services has not been able to directly improve taxpayer compliance. Taxpayer compliance is likely more influenced by other factors such as tax awareness, tax sanctions, and taxpayer administrative needs.

The results of this study are inconsistent with Syam's (2022) study, which explains that service quality can increase user satisfaction and loyalty. However, in the context of taxation, taxpayer compliance is influenced not only by service quality but also by regulatory factors and taxpayer awareness.

3.6. The Influence of Tax Literacy and the Tax System on Taxpayer Compliance through the Quality of Tax Services

The path analysis results show that the indirect effect of Tax Literacy on Taxpayer Compliance through Tax Service Quality is -0.000168. Meanwhile, the indirect effect of the Tax System on Taxpayer Compliance through Tax Service Quality is -0.0063. The value of these indirect effects is smaller than the direct effect of each variable on Taxpayer Compliance.

Furthermore, the relationship between Tax Service Quality and Taxpayer Compliance was also insignificant, with a significance value of 0.901 > 0.05. Therefore, Tax Service Quality was unable to mediate the influence of Tax Literacy or the Tax System on Taxpayer Compliance. Therefore, H6 was rejected.

The results of this study indicate that taxpayer compliance is more influenced by taxpayer understanding of taxation and perceptions of the tax system than by the quality of service received. This study also indicates that service quality is not strong enough to be a mediating variable in improving taxpayer compliance.

4. Conclusion

Tax literacy has a positive and significant impact on taxpayer compliance. This finding indicates that the better a taxpayer's understanding of taxation, the higher their level of compliance in fulfilling their tax obligations. The tax system has a positive and significant impact on taxpayer compliance. This indicates that the better the tax system, particularly one that is easy to understand, effective, and supported by technology, the higher the level of taxpayer compliance in fulfilling their tax obligations. Tax literacy did not significantly impact the quality of tax services. These results indicate that taxpayers' level of understanding does not directly impact the quality of services provided by tax authorities. The tax system has a positive and significant impact on the quality of tax services. This finding indicates that implementing a good, effective, and user-friendly tax system can improve the quality of tax services provided to taxpayers. Tax Service Quality does not significantly influence Taxpayer Compliance. This finding indicates that taxpayer compliance is not solely determined by the quality of tax services but can also be influenced by other factors, such as tax awareness, taxpayer understanding, and motivation to fulfill tax obligations. Tax service quality was unable to mediate the influence of tax literacy and the tax system on taxpayer compliance. These results indicate that taxpayer compliance is more influenced by direct factors than by the quality of tax services as an intervening variable.

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