

The role of tax literacy on MSME tax compliance: The mediating effect of public trust and the moderating role of Kalosara

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ARTICLE INFO

ABSTRACT

Article history:

Received 2026-02-09

Accepted 2026-06-09

Published 2026-06-22

Keywords:

Tax Compliance; Tax Literacy; Trust in Tax Authorities; Kalosara; MSMEs

DOI:

<https://doi.org/10.20885/jaai.vol30.iss1.art14>

This study aims to analyze the influence of Tax Literacy on Tax Compliance through Trust in Tax Authorities and examine the moderating role of Kalosara-based Tax Culture in MSMEs. The research method uses a quantitative approach with a survey design of 300 MSMEs selected using purposive sampling. Data were analyzed using Structural Equation Modeling-Partial Least Square (SEM-PLS) to test direct, indirect, and moderating relationships between variables. The results of the study indicate that tax literacy has no direct effect on tax compliance, but significantly influences trust in tax authorities, which in turn positively influences tax compliance. Trust is proven to fully mediate this relationship, while Kalosara-based tax culture does not act as a moderating variable. These findings suggest that tax compliance is more determined by institutional factors than cognitive and cultural factors. The implication is that increasing compliance needs to be focused on strengthening trust in the tax authorities. The novelty of this research lies in the integration of Social Capital Theory in the context of Kalosara culture in the MSME tax compliance model.

Introduction

Mainstream literature assumes that tax literacy improves MSME taxpayer compliance by improving understanding of tax obligations (Nguyen, 2022; Muttaqin, 2022), but empirical evidence suggests this relationship is inconsistent and tends to weaken when oversight is low (Alamien et al., 2023). The public trust approach also claims that trust drives tax morale and compliance (Supriyati et al., 2024; Appiah et al., 2024) but fails to explain why trust levels do not always result in compliant behavior. Meanwhile, the tax culture perspective emphasizes the role of social norms (Hlastec et al., 2023; Joel et al., 2023) but remains generic and ignores the local cultural context. This inconsistency highlights the weakness of existing models as they separate cognitive, psychological, and cultural factors. These limitations are relevant to food stall business owners in Kendari City, where local values such as Kalosara¹ have the potential to shape compliance through mechanisms not explained by conventional approaches.

Research on MSME tax compliance still shows inconsistent results despite extensive testing of knowledge, literacy, digitalization, and tax information systems. Several studies have found that tax literacy and knowledge have a positive effect on taxpayer compliance (Gerger et al., 2019; Muttaqin, 2022; Handoko et al., 2020; Ningsih, 2024; Twum et al., 2025), while other studies show that tax education does not always have a significant impact on compliance, even failing to mediate increased tax revenue (Alamien et al., 2023). Similar inconsistencies are also seen in the digitalization variable, where e-tax systems and information systems have been shown to increase compliance (Nurhapsari et al., 2024; Putri & Murdiawati, 2025), but attitudes toward technology have a negative effect on compliance (Nurhapsari et al., 2024). In addition, most studies still use a perception-based cross-sectional approach, so that compliance measurements represent more of taxpayers' intentions or perceptions than actual behavior (Appiah et al., 2024; Damayanti et al., 2021).

Research has subsequently focused on psychological and social factors such as public trust, tax awareness, fairness, and social norms, which are considered capable of explaining compliance more broadly. Trust in government, fairness, and tax awareness have been shown to positively influence taxpayer compliance (Ariana et al., 2024; Appiah et al., 2024; Damayanti et al., 2021), but tax socialization variables are inconsistent and often insignificant (Ariana et al., 2024; Putri & Murdiawati, 2025; Ningsih, 2024). Furthermore, most studies are limited

¹ In the life of the Tolaki tribe (Southeast Sulawesi), Kalosara has existed and been used from ancient times until now, its use is very extensive in aspects of life such as in government, marriage, even in matters to improve the welfare of life such as hunting, raising livestock, and farming.

to specific sectors and regions, such as culinary MSMEs in Central Java, Tanah Abang, Tegal City, or East Medan, thus limiting the external validity of the research. The approaches used also tend to separate cognitive, administrative, and socio-cultural factors, while local cultural aspects have not been positioned as the primary mechanism for shaping compliance. This condition shows that previous research is still partial and has not produced an integrative model that is able to explain the relationship between tax literacy, public trust, and local culture simultaneously in shaping MSME tax compliance.

Studies on MSME tax compliance have been dominated by the Theory of Planned Behavior and the Slippery Slope Framework, which explain compliance through attitudes, subjective norms, behavioral control, trust in authorities, and the strength of tax oversight (Appiah et al., 2024; Damayanti et al., 2021; Ariana et al., 2024). This approach is reinforced by various studies that place tax literacy, knowledge, digitalization, and tax information systems as the main factors shaping compliance (Gerger et al., 2019; Muttaqin, 2022; Putri & Murdiawati, 2025; Twum et al., 2025). However, empirical findings show that the influence of these factors is not always consistent, with tax education often being insignificant and attitudes toward technology actually weakening compliance (Alamien et al., 2023; Nurhapsari et al., 2024). On the other hand, research on tax culture and social norms does indeed show an influence on compliance (Hlastec et al., 2023; Joel et al., 2023), but it is still positioned as a general variable and does not explain how local cultural values work as a social control mechanism that influences taxpayer behavior. This limitation indicates that existing theories are still oriented towards individual rationality and are unable to explain compliance based on collective values. Therefore, this study synthesizes Social Capital Theory to integrate Kalosara culture as a source of collective norms, social trust, and social control that shape MSME tax compliance more contextually.

Regional taxes play a strategic role in supporting regional fiscal capacity and financing public services. However, the level of tax compliance among MSMEs, particularly food stall businesses, remains a challenge because it is not yet aligned with the growing potential of the culinary sector. Various efforts, such as tax outreach, payment digitization, and administrative simplification, have been implemented, but their effectiveness still shows inconsistent results in increasing taxpayer compliance (Alamien et al., 2023; Nurhapsari et al., 2024; Putri & Murdiawati, 2025). This condition indicates that regional tax compliance cannot be explained solely through administrative and literacy approaches. In the context of food stall businesses in Kendari City, which are active taxpayers, compliance behavior is potentially influenced by trust in the local government and local cultural values that remain strong in the community's socio-economic activities. The Kalosara culture, which emphasizes collective responsibility, moral compliance, and social harmony, has the potential to be a social mechanism influencing regional tax compliance, but these aspects have not been widely accommodated in the MSME tax compliance model. Therefore, this research is important to produce a regional tax compliance model that is more contextual and relevant to the socio-cultural characteristics of local communities.

This study contributes to the tax compliance literature by developing a model of MSME local tax compliance that integrates tax literacy, public trust, and local culture within a single analytical framework. Unlike previous studies that generally focus on central tax compliance, the formal sector, or administrative approaches (Appiah et al., 2024; Damayanti et al., 2021; Ariana et al., 2024), this study places local taxes in the food stall business sector as the primary empirical context, a sector still limited in the literature. The novelty of this study lies in the use of Kalosara culture as an informal social control mechanism that influences the relationship between tax literacy, public trust, and local tax compliance. The integration of Social Capital Theory allows this study to explain tax compliance not only as a response to tax knowledge and authority, but also as part of the collective values of the local community. This study also broadens the context of MSME tax compliance studies to food stall business owners in Kendari City who are active taxpayers, thus providing an empirical contribution to the development of local tax policies based on the socio-cultural characteristics of the community.

Literature Review

Social Capital Theory

Social Capital Theory was first introduced by Pierre Bourdieu, who explained social capital as a resource born from social networks and intergroup relations (Bourdieu, 1986). This concept was later expanded by James Coleman, who emphasized the function of norms, trust, and social structures in shaping individual actions (Coleman, 1988), and by Robert Putnam, who positioned social capital as an important element in building social coordination and collective action through trust, norms, and social networks (Putnam, 1993). In the context of taxation, social capital is reflected through trust in the government, adherence to social norms, and social control within the community that influence taxpayer behavior (Appiah et al., 2024; Damayanti et al., 2021; Ariana et al., 2024). Previous research also shows that social and cultural norms have an influence on tax compliance (Hlastec et al., 2023; Joel et al., 2023). Based on this perspective, this theory is relevant to explain the relationship between tax literacy, public trust, Kalosara culture, and regional tax compliance of MSMEs.

Kalosara

Kalosara is a cultural value system of the Tolaki people of Southeast Sulawesi that emphasizes the principles of justice, social responsibility, reciprocal cooperation, and collective unity, which morally regulate individual behavior toward their community. These values serve not only as social norms but also as an ethical framework that can shape citizens' economic behavior, including compliance with tax obligations. When fiscal obligations are understood as part of the collective responsibility to maintain social harmony and support collective development, tax compliance is no longer driven solely by sanctions, but rather by moral and cultural imperatives. [Kasim et al., 2022](#) shows that integrating local values such as Kalosara into tax education approaches can significantly improve fiscal awareness and compliance. Therefore, Kalosara is positioned as a moderating variable in this study to evaluate the extent to which the internalization of local cultural values is able to strengthen the influence of social ethics on tax compliance of food stall businesses in Kendari City.

Relationship between Variables and Hypothesis Formulation

Tax literacy and tax compliance

Social Capital Theory explains that public understanding and awareness of social rules will shape cooperative behavior and compliance with public institutions because individuals tend to follow systems that are seen as legitimate and beneficial to the common good ([Coleman, 1988](#); [Putnam, 1993](#)). In the context of taxation, tax literacy reflects the ability of taxpayers to understand regulations, administrative procedures, tax rights and obligations, and the function of taxes for national development. A high level of tax literacy encourages MSMEs to understand the importance of taxes as a form of social responsibility, thereby increasing awareness and willingness to fulfill tax obligations voluntarily. On the other hand, low tax literacy makes it difficult for taxpayers to understand the tax system, increases administrative errors, and encourages low tax compliance among MSMEs.

Empirical research shows that tax literacy has a positive effect on MSME tax compliance. Tax knowledge and education have been shown to improve taxpayers' understanding of the tax system, thereby strengthening tax awareness and compliance behavior ([Gerger et al., 2019](#); [Hayat et al., 2022](#); [Nguyen, 2022](#); [Alamien et al., 2023](#)). Other studies also show that tax knowledge has a significant positive effect on taxpayer compliance for both MSMEs and individual taxpayers because taxpayers who understand tax regulations tend to more easily fulfill their tax obligations correctly and on time ([Putri & Murdiawati, 2025](#); [Muttaqin, 2022](#); [Ningsih & Murdiawati, 2024](#); [Twum et al., 2025](#); [Handoko et al., 2020](#)). The use of tax information systems and tax digitalization has also been shown to strengthen this relationship by increasing understanding and facilitating tax administration ([Nurhapsari et al., 2024](#); [Putri & Murdiawati, 2025](#); [Muttaqin, 2022](#)).

Other findings further strengthen the relationship between tax literacy and tax compliance. A good understanding of taxation increases fairness perception, trust in government, cognitive trust, and tax morale, which then encourages voluntary tax compliance among taxpayers ([Appiah et al., 2024](#); [Hauptman et al., 2024](#); [Damayanti et al., 2021](#); [Fajriana et al., 2023](#); [Supriyati et al., 2024](#)). Social norms, tax culture, tax communication, and the legitimacy of tax institutions are also important factors in building voluntary compliance among MSME taxpayers ([Cahyonowati et al., 2023](#); [Mohammed & Tangl, 2024](#); [Kuandykov et al., 2021](#); [Hlastec et al., 2023](#); [Joel et al., 2023](#); [Hikmah et al., 2021](#); [Stetsenko & Nishcheretov, 2021](#)). These results indicate that the higher the tax literacy of MSMEs, the higher the level of taxpayer awareness and compliance in fulfilling their tax obligations. Based on this description, the first hypothesis is formulated as follows:

H₁: Tax literacy has a positive influence on MSME tax compliance.

Tax literacy and tax compliance

Social Capital Theory explains that trust in public institutions is formed through understanding, social interaction, and positive public perceptions of the institution's legitimacy and credibility ([Coleman, 1988](#); [Putnam, 1993](#)). In the context of taxation, tax literacy reflects taxpayers' ability to understand regulations, tax functions, tax rights and obligations, and tax administration mechanisms. A high level of tax literacy encourages taxpayers to understand the objectives and benefits of taxes for development, thus forming positive perceptions of the integrity, transparency, quality of service, and professionalism of tax authorities. Conversely, low tax literacy can lead to misunderstandings of tax policies, increase negative perceptions of the government, and reduce the legitimacy of tax institutions in the eyes of taxpayers.

Empirical research shows that tax literacy is positively related to the formation of taxpayers' perceptions and trust in the tax authorities. Tax knowledge has been shown to improve taxpayers' understanding of the tax system, thereby strengthening fairness perceptions, trust in government, and acceptance of tax policies ([Appiah et al., 2024](#); [Hauptman et al., 2024](#); [Nguyen, 2022](#); [Damayanti et al., 2021](#)). Tax education and understanding also increase public awareness of the function of taxes and strengthen positive perceptions of tax administration ([Gerger et al., 2019](#); [Hayat et al., 2022](#); [Alamien et al., 2023](#)). Other studies have also shown that tax knowledge, tax digitalization, and tax information systems can improve taxpayers' understanding of tax procedures, thereby strengthening positive perceptions of tax institutions ([Putri & Murdiawati, 2025](#); [Nurhapsari et al., 2024](#); [Muttaqin, 2022](#); [Ningsih, 2024](#); [Twum et al., 2025](#)).

Other findings further strengthen this relationship. Procedural fairness, government communication, service quality, and tax culture have been shown to increase cognitive trust and the legitimacy of tax authorities in the eyes of taxpayers (Fajriana et al., 2023; Mohammed & Tangl, 2024; Kuandykov et al., 2021; Cahyonowati et al., 2023). Trust in government, tax morale, social norms, and tax culture are also important factors in building taxpayer trust and voluntary compliance (Supriyati et al., 2024; Hlastec et al., 2023; Joel et al., 2023; Hikmah et al., 2021; Stetsenko & Nishcheretov, 2021; Ariana et al., 2024). These results indicate that the higher a taxpayer's tax literacy, the higher their level of trust in the tax authorities. Based on this description, the second hypothesis is formulated as follows:
H₂: Tax literacy has a positive effect on trust in tax authorities.

Trust in tax authorities and tax compliance

Social Capital Theory explains that trust is the basis for forming compliance with social rules because individuals tend to follow institutions that are seen as fair, credible, and trustworthy (Coleman, 1988; Putnam, 1993). In the context of taxation, trust in tax authorities reflects taxpayers' belief in the integrity of the government, transparency of tax management, quality of service, and fairness of the tax system. A high level of trust encourages MSMEs to view taxes as a social obligation, thereby increasing voluntary compliance. Conversely, low trust in the government and high perceptions of injustice can lower tax morale and encourage taxpayer non-compliance.

Empirical research shows that trust in tax authorities has a positive effect on MSME tax compliance. Trust in government, fairness perception, and cognitive trust have been shown to increase voluntary tax compliance because taxpayers tend to be more compliant when they perceive tax institutions as having good legitimacy and credibility (Appiah et al., 2024; Damayanti et al., 2021; Fajriana et al., 2023; Nguyen, 2022; Hauptman et al., 2024). Other research also shows that trust in authority, trust in government, and the quality of government-community relations have a significant positive effect on MSME taxpayer compliance (Cahyonowati et al., 2023; Ariana et al., 2024; Supriyati et al., 2024). Government communication, the quality of tax services, and tax culture also strengthen taxpayers' positive perceptions of tax institutions, thereby increasing voluntary taxpayer compliance (Mohammed & Tangl, 2024; Kuandykov et al., 2021; Hlastec et al., 2023).

Other findings further strengthen this relationship. Social norms, tax morale, and tax culture have been shown to be important factors in developing taxpayer compliance behavior because individuals tend to conform to the prevailing social values within their environment (Joel et al., 2023; Hikmah et al., 2021; Hlastec et al., 2023). Stetsenko and Nishcheretov (2021) also explain that low trust in the government leads to low tax morale and taxpayer compliance. Tax knowledge and tax education also strengthen the legitimacy of the tax authorities because taxpayers who understand the tax system tend to have higher levels of trust and compliance (Gerger et al., 2019; Hayat et al., 2022; Alamien et al., 2023). These results indicate that the higher taxpayer trust in the tax authorities, the higher the tax compliance of MSMEs. Based on this explanation, the third hypothesis is formulated as follows:
H₃: Trust in tax authorities has a positive effect on MSME tax compliance.

Trust in tax authorities as mediators

Social Capital Theory explains that public understanding of public institutions will shape social trust which then influences compliance behavior towards social rules (Coleman, 1988; Putnam, 1993). In the context of taxation, tax literacy enables taxpayers to understand regulations, tax functions, and tax administration mechanisms, thus forming a positive perception of the integrity and professionalism of the tax authorities. A high level of tax understanding can increase trust in the government and tax institutions, while this trust encourages voluntary tax compliance. However, the relationship between tax literacy and tax compliance in previous studies still shows inconsistent results, thus opening up the opportunity to use the mediating variable of trust in tax authorities.

Several studies have found that tax literacy has a significant positive effect on tax compliance among both MSME and individual taxpayers (Hayat et al., 2022; Nguyen, 2022; Putri & Murdiawati, 2025; Muttaqin, 2022; Ningsih, 2024; Twum et al., 2025). Other studies also explain that low tax literacy leads to low tax compliance, so tax education is needed to increase taxpayer awareness (Gerger et al., 2019). However, different results were found by Handoko et al. (2020) who showed that tax knowledge does not have a direct effect on tax compliance and is more effective through the intervening variable of tax awareness. Alamien et al. (2023) also found that tax education does not have a direct significant effect on tax compliance but is more effective through certain mechanisms in increasing tax revenue. This inconsistency indicates that the influence of tax literacy on tax compliance is not entirely direct and may require a mediating variable.

Other research shows that trust in tax authorities is an important factor bridging this relationship, where tax knowledge increases voluntary tax compliance through trust in government and perceived tax fairness as mediating variables (Appiah et al., 2024). Several researchers also found that trust in authority, fairness perception, and cognitive trust have a positive effect on voluntary tax compliance (Cahyonowati et al., 2023; Supriyati et al., 2024; Ariana et al., 2024; Fajriana et al., 2023; Damayanti et al., 2021). Tax communication, tax culture, social norms, tax morale, and trust in the government are also confirmed to be important factors in forming voluntary taxpayer compliance

(Mohammed & Tangl, 2024; Kuandykov et al., 2021; Hlastec et al., 2023; Joel et al., 2023; Hikmah et al., 2021; Stetsenko & Nishcheretov, 2021). These results indicate that tax literacy can improve MSME tax compliance by fostering trust in tax authorities. Based on this description, the fourth hypothesis is formulated as follows:

H₄: Trust in tax authorities mediates the influence of tax literacy on MSME tax compliance.

Kalosara-Based Tax Culture as Moderation

Social Capital Theory explains that trust in public institutions and collective cultural values are the foundation for the formation of cooperative behavior in society towards social rules (Coleman, 1988; Putnam, 1993). In the context of taxation, trust in tax authorities reflects taxpayers' belief in the integrity, transparency, fairness, and quality of service of tax institutions. Meanwhile, the Kalosara-based tax culture represents local Tolaki values that emphasize unity, social shame, mutual cooperation, honesty, and collective responsibility. These values are thought to strengthen the relationship between trust in tax authorities and tax compliance, as taxpayers comply not only based on institutional legitimacy but also on social norms embedded in the community's cultural environment.

Empirical research shows that trust in authority, trust in government, fairness perception, and cognitive trust have a positive effect on voluntary tax compliance because taxpayers tend to be more compliant when they perceive tax institutions as fair and credible (Appiah et al., 2024; Damayanti et al., 2021; Fajriana et al., 2023; Nguyen, 2022; Cahyonowati et al., 2023; Ariana et al., 2024; Supriyati et al., 2024). Social and cultural factors have also been shown to influence taxpayer compliance behavior through social norms, tax morale, tax culture, government communication, and the legitimacy of tax institutions (Mohammed & Tangl, 2024; Kuandykov et al., 2021; Hikmah et al., 2021; Stetsenko & Nishcheretov, 2021). These findings indicate that the influence of trust in tax authorities on tax compliance may differ in each social and cultural environment of society.

In the Tolaki community, Kalosara values that emphasize social harmony, social shame, unity, and collective responsibility are thought to be able to strengthen the influence of trust in tax authorities on MSME tax compliance. Taxpayers with a high level of trust in tax authorities and who are in a strong Kalosara cultural environment tend to have higher tax compliance than taxpayers in a weak cultural environment. This argument is supported by previous research showing that social norms, tax culture, tax morale, and the legitimacy of tax institutions can strengthen taxpayer compliance behavior in certain social environments (Joel et al., 2023; Hlastec et al., 2023; Kuandykov et al., 2021). Based on this description, the following hypothesis is formulated:

H₅: Kalosara-based tax culture moderates the influence of trust in tax authorities on MSME tax compliance.

Based on the development of these hypotheses, the conceptual framework model in this study can be described in Figure 1 as follows:

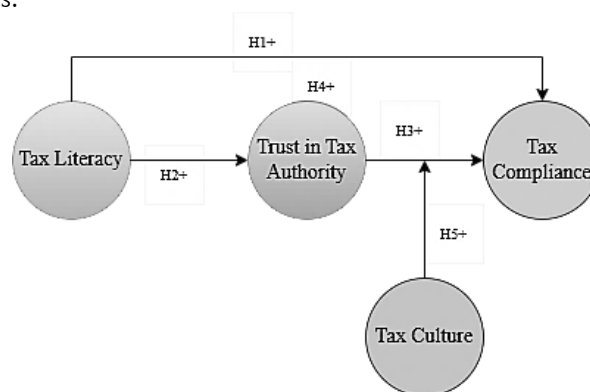


Figure 1. Conceptual Framework Model

Research Method

This study uses primary data obtained through questionnaires distributed to Micro, Small, and Medium Enterprises (MSMEs) in Kendari City, Southeast Sulawesi. The population in this study was 471 eateries consisting of 63 restaurants, 91 food stalls, and 317 food stalls registered with the Kendari City Cooperatives and MSMEs Office. The sampling technique used purposive sampling with the criteria of MSMEs who have been running a business for at least one year and are actively conducting business activities. The number of research samples was 382 MSMEs with a total of 382 respondents. The research data were used to obtain information on tax literacy, trust in tax authorities, Kalosara-based tax culture, and MSME tax compliance. In addition, supporting data regarding MSME development and regional tax conditions were obtained from official publications of the Central Statistics Agency (BPS) and the Kendari City Cooperatives and MSMEs Office.

The endogenous variable of this study is MSME tax compliance, which reflects the level of taxpayer compliance in carrying out tax obligations in accordance with applicable regulations (Nguyen, 2022; Appiah et al., 2024). Tax compliance is measured using eight indicators, including tax reporting compliance, accuracy of tax

payments, accuracy of tax calculations, tax administration compliance, timely payment compliance, business transaction recording compliance, tax document storage compliance, and compliance with MSME tax regulations.

The exogenous variable in this study is tax literacy, which represents taxpayers' ability to understand tax regulations, tax rights and obligations, tax administration procedures, and the function of taxes for national development (Gerger et al., 2019; Putri & Murdiawati, 2025). Tax literacy is measured using six indicators: understanding tax rates, understanding tax rights and obligations, understanding tax reporting procedures, understanding the tax payment system, understanding tax sanctions, and understanding the benefits of taxes for development.

The mediating variable in this study is trust in the tax authorities, which represents taxpayers' belief in the integrity, transparency, service quality, professionalism, and fairness of the tax system (Fajriana et al., 2023; Supriyati et al., 2024). This variable is measured using six indicators, including trust in the integrity of the tax authorities, transparency of tax management, quality of tax authorities' services, professionalism of tax officers, fairness of tax policies, and credibility of tax institutions. Meanwhile, Kalosara-based tax culture serves as a moderating variable. Kalosara-based tax culture reflects local Tolaki cultural values that emphasize unity, mutual cooperation, social shame, honesty, collective responsibility, and social harmony (Joel et al., 2023; Kuandykov et al., 2021; Mohammed & Tangl, 2024). This variable is measured using twelve indicators representing the values of unity, mutual cooperation, social shame, respect for social rules, collective responsibility, social solidarity, social harmony, social concern, honesty, justice, adherence to customary norms, and community social participation.

The research data analysis used the Partial Least Squares Structural Equation Modeling (PLS-SEM) method through the SmartPLS application with the stages of outer model and inner model evaluation. Outer model evaluation was carried out to test the validity and reliability of the construct using outer loading values, Average Variance Extracted (AVE), Cronbach's Alpha, Composite Reliability, and rho_A. Inner model evaluation was carried out using Standardized Root Mean Square Residual (SRMR), d_ULS, d_G, Chi-Square, and Normed Fit Index (NFI) values to assess the feasibility and predictive ability of the structural model. Hypothesis testing was carried out using the bootstrapping technique by looking at the Path Coefficient, T-Statistic, and P Values at a significance level of 5% (Hair et al., 2020).

Result and Discussion

Respondent Profile

The majority of respondents were male, with a total of 277 people (73%). Meanwhile, there were 103 female respondents (27%). This distribution indicates a male predominance in the respondent population, although female participation remains significant. In terms of length of time running a restaurant business, the majority of respondents (239 people or 63%) have been operating for less than five years. This indicates that many respondents are newcomers to the industry. Respondents who have been in business for 6 to 10 years numbered 114 people (30%), while 27 people (7%) have been operating for more than 10 years. This reflects the variation in business experience among respondents. In terms of education, the majority of respondents had a high school education, with a total of 220 people (58%). A total of 92 respondents (24%) had a bachelor's degree/diploma 4 (S1/D4), 50 respondents (13%) had a master's degree, and 18 respondents (4%) had a diploma. This educational distribution indicates that respondents generally have adequate education to run a restaurant business.

Descriptive Statistics Results

The results of descriptive statistics are used to provide a general overview of the characteristics of the data and the distribution of respondents' answers for each research variable.

Table 1. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Elementary school.
Tax Literacy	382	3.00	5.00	4.26	0.59
Trust in Taxes Authority	382	1.33	4.83	3.30	0.77
Tax culture Based on Kalosara	382	1.42	4.58	3.09	0.72
Tax Compliance	382	1.13	4.63	3.10	0.80

Source: SmartPLS output (processed)

The results of the descriptive statistical analysis in Table 1 show significant variations in five tax - related variables among the 382 respondents. Tax Literacy showed a high level of understanding (mean 4.26, range 3.00 - 5.00), reflecting diverse views on social ethics. Trust in Tax Authorities recorded a mean of 3.30 (range 1.33 - 4.83), indicating fairly good trust but uncertainty. Kalosara-Based Tax Culture and Tax Compliance were both at moderate levels (mean around 3.09), with standard deviations indicating variations in tax culture understanding and compliance levels. This analysis underscores the complexity of respondents' attitudes toward taxes and social ethics.

Measurement Model

This research model is based on Social Capital Theory, which emphasizes the importance of trust, social norms, and cultural values in shaping public compliance behavior toward public institutions. This study examines the influence of tax literacy on MSME tax compliance, both directly and indirectly through trust in tax authorities as a mediating variable. Furthermore, this study also examines the role of Kalosara-based tax culture as a moderating variable that strengthens the relationship between trust in tax authorities and MSME tax compliance. The relationships between variables in this study are then presented in the following research model (Figure 2).

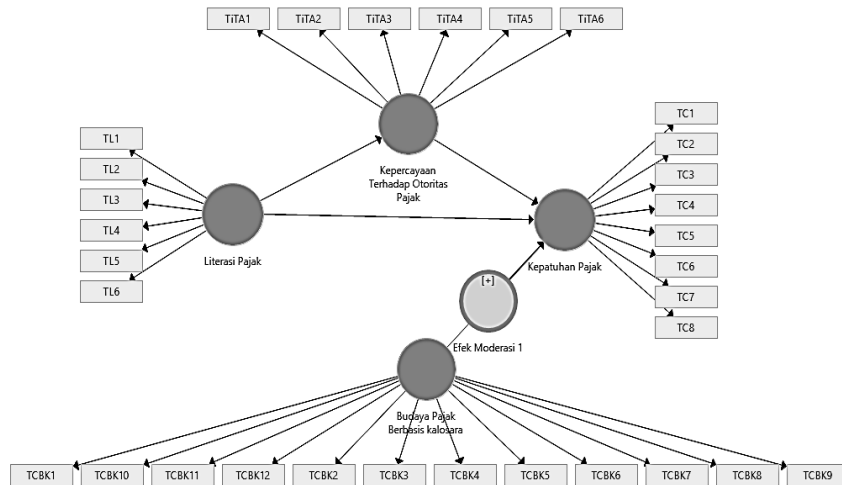


Figure 2. Initial Research Model in SmartPLS

Table 2. Summary of Research Indicator Load Factor Values

Indicator	Loading Factor Value	Information
TL1	0.768	Valid
TL2	0.869	Valid
TL3	0.731	Valid
TL4	0.842	Valid
TL5	0.763	Valid
TL6	0.753	Valid
TiTA1	0.748	Valid
TiTA2	0.825	Valid
TiTA3	0.858	Valid
TiTA4	0.867	Valid
TiTA5	0.780	Valid
TiTA6	0.724	Valid
TCBK1	0.861	Valid
TCBK2	0.875	Valid
TCBK3	0.641	Invalid
TCBK4	0.849	Valid
TCBK5	0.703	Valid
TCBK6	0.921	Valid
TCBK7	0.905	Valid
TCBK8	0.745	Valid
TCBK9	0.907	Invalid
TCBK10	0.677	Invalid
TCBK11	0.753	Valid
TCBK12	0.132	Valid
TC1	0.837	Valid
TC2	0.856	Valid
TC3	0.808	Valid
TC4	0.871	Valid
TC5	0.860	Valid
TC6	0.853	Valid
TC7	0.745	Valid
TC8	0.757	Valid

Source: SmartPLS output (processed)

Evaluation of the measurement model (outer model) includes validity and reliability analysis. Validity analysis is conducted by measuring the factor loading values for each indicator, where an indicator is considered valid if the factor loading reaches a minimum value of 0.7. Furthermore, reliability testing aims to ensure the internal consistency of the indicators, using a Cronbach's Alpha value that must be greater than 0.6 to indicate an adequate level of reliability.

Based on the results of the outer loading test in Table 2, the majority of indicators show loading factor values above 0.70, so it can be concluded that these indicators have met the convergent validity criteria. However, there are three indicators, namely TCBK3, TCBK10, and TCBK12, which have loading factor values below 0.70, so they do not meet the validity criteria. Therefore, these three indicators are considered for removal or revision to improve the quality of the research model measurement (Hair et al., 2020). The final research model after these adjustments is presented in Figure 3.

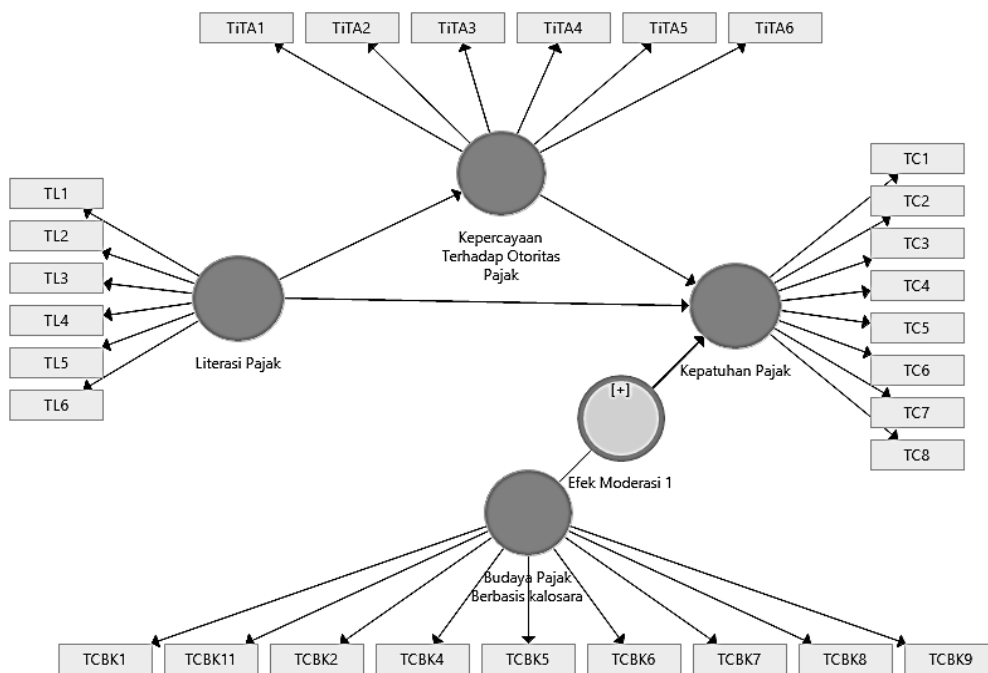


Figure 3. Final Research Model in SmartPLS

The final model of this study is the result of refining the initial model through an indicator validity evaluation process, specifically through outer loading testing. Based on the results of the outer model analysis, indicators with loading factor values below the threshold of 0.70 were considered convergently invalid and were removed from the model. Three indicators of the Kalosara-based Tax Culture construct, namely TCBK3 (0.641), TCBK10 (0.677), and TCBK12 (0.132), were eliminated because they did not meet the convergent validity criteria as suggested by (Hair et al., 2020). After the removal of these indicators, the final model showed a cleaner, more stable, and more reliable measurement structure.

Table 3. Construct Validity and Reliability

Variables	Cronbach's Alpha	rho A	AVE
Tax Literacy	0.878	0.884	0.623
Trust in Tax Authorities	0.888	0.890	0.643
Tax Culture Based Kalosara	0.931	0.947	0.602
Tax Compliance	0.932	0.936	0.680

Source: SmartPLS output (processed)

The results of construct validity and reliability tests presented in Table 3 show that all constructs meet the criteria for reliability and convergent validity. The Cronbach's Alpha and rho_A values for all variables are above 0.70, while the Average Variance Extracted (AVE) exceeds the threshold of 0.50. Tax Literacy has a Cronbach's Alpha of 0.878 and an AVE of 0.623, Trust in Tax Authorities of 0.888 and 0.643, Tax Culture Based Kalosara of 0.931 and 0.602, and Tax Compliance of 0.932 and 0.680. These findings indicate that all constructs have good internal consistency and indicator variance explanation capabilities, making them suitable for use in structural model testing (Hair et al., 2020).

Table 4. Model Fit

Indicator	Index	General Criteria	Information
SRMR	0.079	≤ 0.10	Good (Model Fit)
d_ ULS	3.321	There is no standard limit, used for comparison between models.	Minor differences, accepted
d_ G	5.449	There is no standard limit, used for comparison between models.	Minor differences, accepted
Chi-Square	7131.562	Smaller values are better, but sensitive to sample size.	Large value, reasonable because the sample size is large
NFI	0.547	≥ 0.90 indicates a very good model	It's optimal, the model can still be improved

Source: SmartPLS output (processed)

The model evaluation results in Table 4 indicate that the structural model has an acceptable level of fit. The Standardized Root Mean Square Residual (SRMR) value of 0.079 is below the threshold of 0.10, indicating an adequate level of model fit. The d_ ULS value of 3.321 and d_ G of 5.449 indicate a relatively small difference in model residuals. The Chi-Square value of 7131.562 is relatively large, but this statistic is sensitive to sample size and the number of indicators in the SEM-PLS model. Meanwhile, the Normed Fit Index (NFI) value of 0.547 indicates that the model has not reached the perfect fit category. However, the PLS-SEM approach places more emphasis on predictive ability and testing of structural relationships than on absolute measures of model fit. (Hair et al., 2020). Therefore, the research model is still considered adequate to continue testing the hypothesis and evaluating the relationships between constructs.

Hypothesis Testing

Table 5. Hypothesis Testing Results

No	Relationship between variables	Path Coefficient	T-Statistic	P Values	Information
H1	Tax Literacy → Tax Compliance	-0.037	0.491	0.623	Rejected
H2	Tax Literacy → Trust in Tax Authorities	0.873	34.797	0.000	Accepted
H3	Trust in Tax Authorities → Tax Compliance	0.389	4.791	0.000	Accepted
H4	Tax Literacy → Trust in Tax Authorities → Tax Compliance	0.340	4.805	0.000	Accepted
H5	Trust in Tax Authorities x Tax Culture Based Kalosara → Tax Compliance	0.010	0.224	0.823	Rejected

Source: SmartPLS output (processed)

The results of the hypothesis testing presented in Table 5 show that Tax Literacy does not have a significant effect on Tax Compliance ($\beta=-0.037$; $t=0.491$; $p=0.623$), so H1 is rejected. This finding indicates that increasing tax understanding has not been able to directly encourage MSME tax compliance. Conversely, Tax Literacy has a significant positive effect on Trust in Tax Authorities ($\beta=0.873$; $t=34.797$; $p<0.001$), which indicates that better tax understanding can increase taxpayer trust in tax institutions. Trust in Tax Authorities is also proven to have a significant positive effect on Tax Compliance ($\beta=0.389$; $t=4.791$; $p<0.001$), so the higher the level of taxpayer trust in the tax authorities, the higher the tendency of tax compliance. The indirect effect test shows that Trust in Tax Authorities mediates the influence of Tax Literacy on Tax Compliance ($\beta=0.340$; $t=4.805$; $p<0.001$), which confirms that tax literacy is more effective in increasing compliance through building trust in tax authorities. Meanwhile, Tax Culture Based Kalosara is not proven to moderate the relationship between Trust in Tax Authorities and Tax Compliance ($\beta=0.010$; $t=0.224$; $p=0.823$), so the influence of trust on tax compliance tends to be direct and is not significantly influenced by the local cultural context in this research model.

Discussion

The results of the study show that Tax Literacy does not have a significant effect on Tax Compliance. This condition indicates that increasing tax understanding has not directly been able to shape the tax compliance behavior of MSMEs. The Social Capital Theory perspective emphasizes that people's cooperative behavior towards public institutions is not only influenced by knowledge, but is also determined by the level of social trust in the institution. In the context of taxation, taxpayers not only consider understanding tax regulations, but also assess the legitimacy, transparency, quality of service, and fairness of the tax system before deciding to comply. This situation means that tax literacy is insufficient to directly encourage tax compliance. The results of this study align with those of Handoko et al. (2020) and Alamien et al. (2023), who found that tax knowledge does not always directly influence taxpayer

compliance. Conversely, these results differ from those of [Hayat et al. \(2022\)](#), [Putri and Murdiawati \(2025\)](#), and [Ningsih \(2024\)](#), who found that tax literacy can directly increase tax compliance. These differences indicate that the effectiveness of tax literacy is highly dependent on institutional legitimacy and taxpayer perceptions of the tax authorities.

Tax literacy has been shown to have a significant positive effect on trust in tax authorities. These results reinforce the social capital perspective, which explains that an individual's understanding of social systems and public institutions can shape public trust. A good understanding of taxation enables taxpayers to understand the function of tax, the mechanism of tax administration, and the benefits of tax for development, thereby increasing positive perceptions of the integrity and professionalism of the tax authorities. The higher the level of taxpayer understanding of taxation, the higher the level of trust in tax institutions. This condition indicates that tax literacy not only functions as an instrument of administrative knowledge but also as a mechanism for establishing the legitimacy of tax institutions. This finding is consistent with those of [Appiah et al. \(2024\)](#), [Cahyonowati et al. \(2023\)](#), [Supriyati et al. \(2024\)](#), [Nguyen \(2022\)](#), and [Damayanti et al. \(2021\)](#), who explain that tax knowledge, perceived fairness, and the quality of tax services can increase trust in government and authority.

This study also found that Trust in Tax Authorities has a significant positive effect on Tax Compliance. These results support the Social Capital Theory which places trust in public institutions as the main foundation for the formation of cooperative behavior in society towards social rules. Taxpayers who perceive the tax authorities as having integrity, transparency, and good quality of service tend to be more compliant with their tax obligations voluntarily. Trust in tax institutions creates social legitimacy that strengthens taxpayers' willingness to fulfill tax obligations without external pressure. In the context of MSMEs, trust in tax authorities can also reduce perceptions of unfairness and uncertainty in the tax system, thereby increasing voluntary tax compliance. This finding aligns with those of [Appiah et al. \(2024\)](#), [Fajriana et al. \(2023\)](#), [Nguyen \(2022\)](#), [Ariana et al. \(2024\)](#), [Supriyati et al. \(2024\)](#), [Cahyonowati et al. \(2023\)](#), and [Damayanti et al. \(2021\)](#), which show that trust in authority, cognitive trust, trust in government, and perceived tax fairness are important determinants of voluntary tax compliance.

The mediation effect test shows that Trust in Tax Authorities is able to mediate the influence of Tax Literacy on Tax Compliance. These results confirm that tax literacy is more effective in increasing tax compliance through building trust in tax authorities than through direct influence. The social capital perspective explains that individual knowledge will shape cooperative behavior when accompanied by legitimacy and trust in public institutions. In the tax context, tax understanding increases taxpayer confidence in the professionalism, credibility, and fairness of tax authorities, then this trust encourages voluntary tax compliance. These findings indicate that trust is the main social mechanism connecting tax understanding and MSME taxpayer compliance behavior. The results of this study support the research of [Appiah et al. \(2024\)](#), [Cahyonowati et al. \(2023\)](#), [Supriyati et al. \(2024\)](#), and [Fajriana et al. \(2023\)](#) which explain that trust in authority is an important factor in strengthening the relationship between tax knowledge and voluntary tax compliance.

Meanwhile, Tax Culture Based Kalosara was not proven to moderate the relationship between Trust in Tax Authorities and Tax Compliance. These results indicate that the influence of trust in tax authorities on MSME tax compliance tends to be direct and is not significantly influenced by the local cultural context. The social capital perspective explains that collective cultural values can strengthen people's social compliance behavior through social norms, a sense of collective responsibility, and informal social control. However, in this study, Kalosara-based tax culture was not able to strengthen the relationship between trust and tax compliance. This condition indicates that the tax compliance behavior of MSMEs is more influenced by institutional factors, tax administration, and service quality than by local cultural values. In addition, the modernization of the tax system, the digitalization of tax administration, and the increasing administrative orientation of MSMEs may cause local cultural values not to be fully internalized in taxpayers' tax behavior. This phenomenon suggests that local culture is more dominant in social relations than modern tax administration. This finding aligns with [Mohammed and Tangi \(2024\)](#), [Stetsenko and Nishcheretov \(2021\)](#), and [Kuandykov et al. \(2021\)](#), which show that institutional legitimacy and governance quality have a stronger influence on tax compliance than local cultural factors alone.

This research contributes to the development of Social Capital Theory in the context of MSME tax compliance by showing that trust in tax authorities has a more dominant role than tax literacy in shaping tax compliance. In addition, this study also provides empirical evidence that Kalosara-based local culture is not necessarily able to strengthen the relationship between trust and tax compliance in a modern tax system that is increasingly digitalized and administrative. These findings expand the study of local culture-based taxation by showing that the transformation of a modern tax system can reduce the influence of traditional cultural values on the taxpayer compliance behavior of MSMEs.

Conclusion

This study concludes that Tax Literacy does not directly impact Tax Compliance, but significantly impacts Trust in Tax Authorities, which in turn positively impacts Tax Compliance. This finding confirms that trust in tax authorities

is a key mechanism in shaping MSME tax compliance, while Kalosara-based Tax Culture is unable to moderate the relationship between trust and compliance, so institutional factors are more dominant than local cultural factors in the context of modern taxation.

The strength of this research lies in its ability to integrate Social Capital Theory to explain the mechanism of tax compliance formation through trust as the primary mediator, thus providing a more in-depth explanation of the relationship between tax literacy and compliance. This research also makes an important contribution by examining the role of Kalosara's local culture in a moderating context, enriching the literature on local wisdom-based tax compliance. Furthermore, the research results demonstrate a strong conceptual finding that tax compliance is determined more by institutional factors than solely cognitive factors.

This study is limited by its cross-sectional design, which precludes analysis of long-term changes in tax compliance behavior. The use of self-report data also has the potential to introduce subjective bias in respondents, particularly regarding the tax compliance variable. Furthermore, the limited sample size of MSMEs in a specific region limits the generalizability of the research results to a broader context, and the Kalosara cultural variables may not fully represent the complexity of local cultural values comprehensively.

The results of this study indicate that strategies to improve tax compliance cannot simply focus on improving tax literacy, but must also be accompanied by strengthening trust in the tax authorities through increased transparency, service quality, and institutional accountability. These findings can serve as a basis for policymakers to develop a tax reform approach that is more oriented toward trust-building and public service than solely focused on education. Furthermore, local cultural values can still be utilized as a means of tax outreach to support taxpayer acceptance of the modern tax system.

Practically, the results of this study indicate that increasing MSME tax compliance is not sufficient only through increasing Tax Literacy, but also needs to be accompanied by strengthening Trust in Tax Authorities through increasing transparency, service quality, and accountability of tax institutions, so that the policy approach needs to shift from mere education to a more comprehensive trust-building strategy. Theoretically, this study strengthens Social Capital Theory by emphasizing that institutional trust plays a key role in bridging the influence of tax literacy on tax compliance, and shows that in the context of modern taxation, institutional factors are more dominant than cognitive factors or local culture. For further research, it is recommended to include additional variables such as the quality of tax services, perceived fairness, and tax morale to enrich the tax compliance model, as well as using a longitudinal or mixed methods design to be able to capture the dynamics of changes in MSME tax compliance more comprehensively and in depth.

Acknowledgment

The authors would like to express their sincere gratitude to Sultan Ageng University. We would like to thank Tirtayasa University and Halu Oleo University for the support and research facilities provided during the completion of this study. The authors would also like to thank the anonymous reviewers for their valuable comments and constructive suggestions, which have significantly improved the quality of this manuscript. This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

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