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THE EFFECT OF TAX COMPLIANCE COSTS ON MSME TAXPAYER COMPLIANCE: EVIDENCE FROM SUKOHARJO REGENCY

[1*]Fachriza Zulvi Arifa, [2]Resi Ariyasa Qadri

[1,2]Diploma IV Public Sector Accounting Study Program, Polytechnic of State Finance STAN, Indonesia

Email: [1]4131220117_fachriza@pknstan.ac.id, [2]resi.ariyasa@pknstan.ac.id

*Corresponding Author: 4131220117_fachriza@pknstan.ac.id

ABSTRACT

This study examines the relationship between tax compliance costs and the compliance of micro, small, and medium enterprises (MSMEs) in Sukoharjo Regency, Indonesia. Between 2023 and 2025, registered MSME taxpayers rose by 56%, while the share filing returns fell from 99% to 49%. That decline calls for identifying the factors behind it, and prior studies treat compliance costs as relevant even though the direction remains inconsistent. Transaction cost theory frames compliance costs as real transaction costs borne by taxpayers. The hypothesis was therefore nondirectional and tested two-tailed. Survey data from 100 purposively selected MSME taxpayers were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with 5,000 bootstrap subsamples, with legal form, location, turnover, and length of registration as controls. After the psychological indicator was removed, the cost construct covered only monetary and time indicators. The results show a significant positive association between perceived compliance costs and compliance ($\beta = 0.2296$; $p = 0.0095$; $f^2 = 0.056$), which stays positive in the initial model before the psychological and arrears indicators were removed. This pattern may reflect costs incurred through active compliance, not evidence that higher costs increase compliance. The study contributes evidence on reported compliance behavior, rather than intention, in a region with a sharp compliance decline during the Coretax transition. Improving MSME compliance calls for simpler procedures and assistance, not cost levels alone.

Keywords: Tax Compliance Costs, Tax Compliance, MSMEs, Transaction Cost Theory, PLS-SEM

ABSTRAK

Penelitian ini menguji hubungan antara biaya kepatuhan pajak dan kepatuhan wajib pajak usaha mikro, kecil, dan menengah (UMKM) di Kabupaten Sukoharjo. Pada 2023 sampai 2025, wajib pajak UMKM terdaftar naik 56%, sedangkan proporsi yang melaporkan SPT turun dari 99% menjadi 49%. Penurunan itu menuntut identifikasi faktor penyertanya, dan penelitian terdahulu menempatkan biaya kepatuhan sebagai faktor relevan meskipun arahnya belum konsisten. Transaction cost theory memposisikan biaya kepatuhan sebagai biaya transaksi nyata yang ditanggung wajib pajak. Hipotesis dirumuskan tanpa arah dan diuji dua sisi. Data survei dari 100 wajib pajak UMKM yang dipilih secara purposif dianalisis dengan Partial Least Squares Structural Equation Modeling (PLS-SEM) dan 5.000 subsampel bootstrap, dengan bentuk usaha, lokasi, omzet, dan lama terdaftar sebagai variabel kontrol. Setelah indikator psikologis dikeluarkan, konstruk biaya hanya mencakup indikator biaya moneter dan waktu. Hasil menunjukkan hubungan positif yang signifikan antara persepsi biaya kepatuhan dan kepatuhan (β = 0,2296; p = 0,0095; f^2 = 0,056), dan tetap positif pada model awal sebelum indikator psikologis dan tunggakan dikeluarkan. Pola tersebut dapat mencerminkan biaya yang timbul dari kepatuhan aktif, bukan bukti bahwa biaya lebih tinggi meningkatkan kepatuhan. Kebaruannya terletak pada bukti perilaku kepatuhan yang dilaporkan, bukan niat, di wilayah dengan penurunan kepatuhan tajam selama transisi Coretax. Perbaikan kepatuhan UMKM perlu diarahkan pada kemudahan prosedur dan pendampingan, bukan semata besaran biaya.

Kata Kunci: Biaya Kepatuhan Pajak, Kepatuhan Wajib Pajak, UMKM, Transaction Cost Theory, PLS-SEM

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I. INTRODUCTION

Taxpayer compliance is a critical issue in Indonesia because its tax system is based on self-assessment (Batrancea et al., 2022; Cahyonowati, 2023; Mebratu, 2024). Under this system, taxpayers calculate, pay, and report their tax obligations independently (Batrancea et al., 2022; Mebratu, 2024; Wibowo et al., 2022). State revenue therefore depends strongly on the level of taxpayer compliance (Musimenta, 2020; Nguyen et al., 2026; Peprah et al., 2022). When compliance is low, part of the potential revenue cannot be collected (Danquah et al., 2018; Dare et al., 2019; Peprah et al., 2022). This issue is especially important in the micro, small, and medium enterprise (MSME) sector (Adem et al., 2024; Bani-Khalid et al., 2022; Fajriana, 2023). MSMEs play a major role in the national economy. However, their tax contribution and compliance do not yet match the scale of their economic activity (Appiah et al., 2024; Ojo et al., 2023; Peprah et al., 2022). This condition calls for contextual empirical studies on the relationship between compliance costs and MSME taxpayer compliance. Such studies are particularly needed in regions with distinct compliance dynamics (Bruce-Twum et al., 2022; Paleka et al., 2022; Sunarti et al., 2025).

These dynamics are evident in Sukoharjo Regency, which falls entirely within the jurisdiction of the Sukoharjo Primary Tax Office (Kantor Pelayanan Pajak [KPP] Pratama Sukoharjo). In 2025, the office collected only 97.11% of its revenue target. Final income tax revenue, which includes the MSME final income tax, fell from IDR 146.5 billion in 2024 to IDR 125.9 billion in 2025 (KPP Pratama Sukoharjo, 2025). Table 1 shows that active MSME taxpayers increased from 15,258 in 2023 to 23,789 in 2025. Over the same period, taxpayers filing returns decreased from 15,139 to 11,737. The filing ratio, which divides filers by active taxpayers, thus fell from 99.2% to 49.3%. The payment ratio fell from 22.6% to 12.3%. Payers are fewer than filers partly because individual MSME taxpayers owe no final income tax on their first IDR 500 million of annual turnover. The office identifies low awareness and difficulties with Coretax, the new core tax administration system, as the main problems (KPP Pratama Sukoharjo, 2025). These difficulties signal a burden on taxpayers. However, administrative counts cannot show whether this perceived burden relates to compliance behavior. This study therefore examines whether and in which direction tax compliance costs are associated with MSME taxpayer compliance

Table 1. MSME Taxpayer Filing and Payment in Sukoharjo Regency, 2023 to 2025

Year	Active Taxpayers	Taxpayers Filing	Taxpayers Paying	Filing Ratio (%)	Payment Ratio (%)
2023	15,258	15,139	3,451	99.2	22.6
2024	19,111	14,993	3,429	78.5	17.9
2025	23,789	11,737	2,921	49.3	12.3

Note: Filing ratio = taxpayers filing ÷ active taxpayers; payment ratio = taxpayers paying ÷ active taxpayers.
Source: Authors' calculations based on tax office data (KPP Pratama Sukoharjo, 2025)

Transaction Cost Theory (TCT) explains that every transaction incurs costs beyond its main price, such as information and coordination costs (Cuypers et al., 2021; Hennart et al., 2022; Williamson, 1981). These costs increase when the parties face bounded rationality and uncertainty (Cuypers et al., 2021; Hennart et al., 2022; Williamson, 1981). In the tax context, the resources that taxpayers spend to meet their obligations beyond the tax payable are called compliance costs (Nar, 2023; Stark et al., 2024; Tran-Nam et al., 2023). Together with the administrative costs of the tax authority, they form the transaction costs of taxation (Dziemianowicz, 2017; Nar, 2023; United Nations, 2014). TCT is therefore a suitable main theory for explaining MSME compliance costs. Previous studies have generally found that compliance costs are negatively related to compliance or compliance intention (Mebratu, 2024; Musimenta, 2020; Saptono et al., 2023). Tax burden and complexity have also been linked to higher compliance costs, a wider tax gap, and tax evasion (Musimenta, 2020; Peprah et al., 2022; Saptono et al., 2024). Studies on MSMEs in Sukoharjo Regency have examined tax awareness, knowledge, sanctions, and incentives but not compliance costs (Endrawati, 2025; Kumalaningrum et al., 2023; Nugroho et al., 2022).

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Nevertheless, the direction and strength of this relationship are not consistent across studies. Most studies report a negative relationship (Mebratu, 2024; Musimenta, 2020; Saptono et al., 2023). A large study of small and medium enterprises (SMEs) finds no significant relationship (Padi et al., 2025). Other studies report a positive relationship with compliance or an inverse relationship with noncompliance (Bruce-Twum, 2023; Musimenta et al., 2017). Three gaps help explain this inconsistency. First, most Indonesian evidence examines compliance intention or the size of compliance costs rather than reported compliance behavior (Inasius, 2019; Saptono et al., 2023; Tran-Nam et al., 2023). Second, the literature usually treats compliance costs only as friction. Yet TCT also views costs incurred in a recurring relationship as transaction-specific investments that bind the parties together (Cuypers et al., 2021; Williamson, 1981). Third, compliance costs are often measured as a single burden. Monetary and time costs arise from performing compliance tasks, whereas psychological costs are affective reactions that need not move with them (Pradina et al., 2023; Tran-Nam et al., 2023). These gaps leave the direction of the relationship open, particularly for MSMEs that operate under a simplified final tax regime.

This study addresses these gaps and makes three contributions. Empirically, it provides behavioral evidence on how compliance costs relate to compliance among Indonesian MSMEs at the regency level. The evidence comes from a region with sharply declining compliance during the transition to Coretax under the 0.5% final tax regime (KPP Pratama Sukoharjo, 2025). Theoretically, it derives two competing predictions from TCT. Compliance costs may act as friction and lower compliance, or they may act as transaction-specific investments and accompany higher compliance. The study then evaluates which pattern the data support. Methodologically, it separates resource-based costs from psychological costs. It also controls for legal form, location, turnover, and tax experience because these characteristics shape both costs and compliance (Ernest et al., 2022; Lavic, 2023; Peprah et al., 2022). Because theory supports both directions, the hypothesis is stated without a direction and tested with a two-tailed test. This test is a consequence of the competing predictions rather than a contribution in itself. Practically, the results can help the Sukoharjo Primary Tax Office design better-targeted strategies to improve MSME compliance.

This study adopts a positivist paradigm with a quantitative approach because the relationships between variables are tested objectively through survey data (Creswell et al., 2018; Saunders et al., 2019; Sekaran et al., 2016). Compliance is viewed as observable through behavioral indicators reported by respondents. The research model positions tax compliance costs as the independent variable (X) and MSME taxpayer compliance as the dependent variable (Y). Legal form, business location, turnover group, and length of tax registration serve as control variables. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) because this method is prediction-oriented and does not require normally distributed data (Hair et al., 2019; Ringle et al., 2024; Sarstedt et al., 2022). Testing used bootstrapping and a two-tailed test in line with the nondirectional hypothesis. The article is organized into five sections. The first section presents the research problem, gap, and contributions. The second section discusses TCT, compliance costs, and taxpayer compliance and develops the hypothesis. The third section explains the research design, measurement, and analysis techniques. The fourth section presents and discusses the results. The fifth section presents the conclusions, limitations, and recommendations for future research.

II. LITERATURE REVIEW

The main foundation of this study is Transaction Cost Theory (TCT). This theory holds that economic transactions involve more than the main price of goods or services (Cuypers et al., 2021). Every transaction also incurs costs to obtain information, understand regulations, and coordinate with other parties (Cuypers et al., 2021). These costs tend to increase when the transacting parties face bounded rationality and high uncertainty (Hennart et al., 2022). Applied to taxation, the relationship between taxpayers and the state is a series of recurring administrative transactions. In each period, taxpayers must understand the rules and record business transactions before they calculate, pay, and report their taxes. The resources used in this process are transaction costs. TCT also explains that specific

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investments in a relationship can create a lock-in between the parties (Cuypers et al., 2021). A party that has invested has something to lose if the relationship ends. TCT does not explain behavioral mechanisms in detail. It nevertheless offers a useful framework for treating tax compliance costs as transaction costs. This framework links compliance costs to the behavior of MSME taxpayers in the discussion that follows.

In the tax literature, the transaction costs of meeting tax obligations are called tax compliance costs. They include all resources that taxpayers sacrifice beyond the tax payable (Nar, 2023). This study distinguishes three dimensions and uses the same definitions throughout. Explicit costs are monetary outlays for consultants, software, equipment, and administration. Implicit costs are the time that owners and staff devote to compliance, valued at its opportunity cost (Nar, 2023; Stark et al., 2024). Psychological costs are the stress, anxiety, or confusion experienced while handling tax obligations (Pradina et al., 2023). The first two dimensions are resource-based costs because they arise from performing compliance tasks. The third dimension is affective because it reflects how taxpayers experience those tasks. These costs fall disproportionately on MSMEs because owners often handle tax matters alongside their operations (Ernest et al., 2022). Lavic (2023) adds that MSME compliance costs are regressive and depend on the use of tax consultants. The final income tax scheme under Government Regulation Number 55 of 2022 simplifies MSME tax calculation (Silkapianis et al., 2023). However, (Tran-Nam et al., 2023) show that presumptive taxation reduces only explicit costs, while implicit and psychological costs remain.

These costs ultimately relate to the behavior that the tax system seeks, namely taxpayer compliance. Operationally, compliance means submitting tax returns (SPT) on time and reporting income completely and accurately. Paying on time and having no tax arrears are also part of compliant behavior. Kirchler et al. (2008) point out that compliant behavior can arise from different motives. Voluntary compliance arises from taxpayers' own awareness, whereas enforced compliance arises from supervision and the threat of sanctions. Both forms can produce similar behavior based on different motives. In a self-assessment system, voluntary compliance is the main pillar because the tax authority cannot supervise every taxpayer directly. Mebratu (2024) shows that voluntary compliance depends on trust in government, tax knowledge, and perceived fairness. Attitudes and subjective norms also shape compliance (Bani-Khalid et al., 2022). The relationship between compliance costs and compliance therefore cannot be assumed to be simple. Taxpayers with different attitudes and experiences may interpret the same costs differently. In this study, compliance is measured through respondents' perceptions of their own behavior. The results are therefore interpreted as perceived compliance rather than compliance recorded in tax administration data.

Combining TCT with the concept of compliance costs yields two opposing arguments. The first argument predicts a negative relationship. The more resources compliance requires, the higher the transaction costs that taxpayers bear. For MSMEs, these resources compete with production and marketing. When compliance consumes more resources, taxpayers may struggle to keep their administrative routines consistent. This condition increases the risk of delays, errors, or neglect. Several studies support this argument. Musimenta (2020) found a negative relationship between compliance costs and tax compliance in Uganda. Mebratu (2024) found that compliance costs reduce voluntary compliance in Ethiopia. Saptono et al. (2023) show that lower perceived compliance costs increase compliance intention. Peprah et al. (2022) link compliance burden to the tax gap among micro and small businesses. However, direct evidence on small businesses remains mixed. Abdul-Jabbar et al. (2008) explored how compliance costs relate to compliance issues among Malaysian SMEs. A PLS-SEM study of 520 Ghanaian SMEs found that value added tax compliance costs were not a significant determinant of compliance (Padi et al., 2025). Another Ghanaian study found that SMEs with higher compliance costs were less likely to be noncompliant (Bruce-Twum, 2023).

The second argument predicts a positive relationship and rests on three elements of TCT. The first element is asset specificity. Compliance requires investments valued mainly within the tax relationship. Examples include learning Coretax, setting up bookkeeping routines, and obtaining filing credentials (Williamson, 1981). Once made, these investments lose their value if the taxpayer exits,

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which creates a lock-in (Cuypers et al., 2021). The second element is frequency. Monthly and annual obligations spread the initial investment over many transactions, so continued compliance becomes cheaper than initial compliance (Williamson, 1981). The third element is uncertainty, which declines as taxpayers repeat compliance procedures (Hennart et al., 2022). Compliance also yields managerial benefits such as better records (Evans et al., 2014; Lignier, 2009). Engaged taxpayers should therefore report higher cumulative costs and keep complying. Musimenta et al. (2019) found such a positive relationship among financial services firms in Uganda. This logic applies to resource-based costs but not to psychological costs, which are expected to deter compliance (Pradina et al., 2023). Because both arguments are plausible, the direction is not specified in advance. It is read from the coefficient sign and tested at the 5% level. Figure 1 presents the research model.

H1: Tax compliance costs are significantly associated with MSME taxpayer compliance

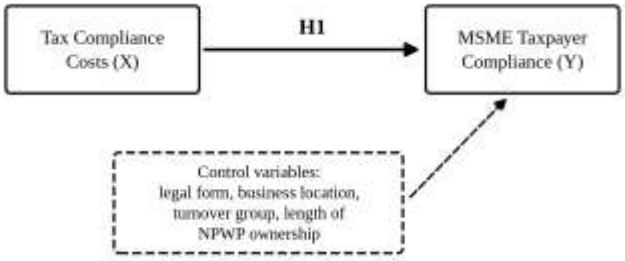


Figure 1. Research Model

Source: Developed by the authors (2026)

III. RESEARCH METHOD

This study uses a cross-sectional survey design (Maier et al., 2023). Sukoharjo Regency was chosen as a critical case for three reasons. First, registered MSME taxpayers grew by 56%, while the filing ratio fell from 99.2% to 49.3%. Second, a single primary tax office serves the regency, so all respondents face the same procedures and Coretax rollout. Third, the office reports Coretax difficulties as a main compliance problem (KPP Pratama Sukoharjo, 2025). The population comprises MSME taxpayers with gross turnover of up to IDR 4.8 billion per year (Peraturan Pemerintah Nomor 55 Tahun 2022 Tentang Penyesuaian Pengaturan Di Bidang Pajak Penghasilan, 2022). Because the database is not disaggregated by turnover, the 23,789 active MSME taxpayers in 2025 served as the reference population. The target respondents were business owners or managers responsible for tax affairs because they directly bear compliance costs. Purposive sampling (Memon et al., 2025) selected respondents who used an NPWP for their business in 2025, had turnover of no more than IDR 4.8 billion, and had operated for at least one year. A G*Power 3.1 analysis ($f^2 = 0.15$, $\alpha = 0.05$, power = 0.80, five predictors) indicated a minimum of 92 respondents (Kang, 2021).

Data were collected from June to September 2026, online and through visits to business sites and MSME centers. This process yielded 100 valid questionnaires from all 12 subdistricts. Participation was voluntary, and each respondent gave consent before answering. The questionnaire did not collect names or taxpayer identification numbers. Respondents could optionally provide a mobile number to receive a token of appreciation. This number was excluded from the analysis data set. All items used a six-point Likert scale (1 = strongly disagree; 6 = strongly agree) to remove the neutral midpoint. Items adapted from English instruments were back-translated to preserve their meaning (Coskun Benlidayi et al., 2024). Before the main survey, 25 university students answered the questionnaire from the perspective of an MSME taxpayer. The pilot checked readability and preliminary reliability. It falls below the minimum of 30 respondents recommended for assessing reliability (Bujang et al., 2024), so it is preliminary screening, not a measurement model evaluation. Items loading between 0.40 and 0.70 were retained if construct reliability and validity were adequate (Hair et al., 2019). All items met these criteria (Table 2a), so none was removed. Validity and reliability were retested on the main sample, which excluded pilot data.

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The instrument measures the two main constructs. Tax compliance costs (X) were measured with three items that the researchers developed from the definition of compliance costs (Nar, 2023; Tran-Nam et al., 2023). Item X_1 captures explicit costs through the money spent on compliance. Item X2 captures implicit costs through the time required. Item X_3 captures psychological costs through the pressure experienced. The construct is reflective because it captures the overall perceived burden of compliance, and its items should rise together as that burden increases. Because psychological costs are affective rather than resource-based costs, X_3 was expected to be the least interchangeable item. Taxpayer compliance (Y) was measured with five items adapted from Musimenta et al. (2017). Items Y1 to Y3 measure timely submission of the annual tax return (SPT Tahunan), complete income reporting, and returns that match actual business conditions. Items Y4 and Y5 measure payment before the due date and the absence of tax arrears. Higher scores on X indicate greater perceived compliance costs, and higher scores on Y indicate higher compliance. All items share the same scale, so their scores are comparable. Table 2 presents the operational definitions of all variables.

Table 2. Operational Definitions of Variables

Variable	Operational Definition	Code	Indicator	Measurement Scale
Tax compliance costs (X)	Perception of the resources sacrificed to fulfill tax obligations beyond the tax payable (Nar, 2023)	X_1	Incurring considerable costs to fulfill tax obligations (explicit: monetary outlays)	Likert 1 to 6 1 = strongly disagree 6 = strongly agree
		X_2	Requiring considerable time to fulfill tax obligations (implicit: time and opportunity cost)	
		X_3	Experiencing high psychological pressure when fulfilling tax obligations (psychological: affective cost)[a]	
Taxpayer compliance (Y)	Perception of the fulfillment of tax obligations in a timely, complete, and accurate manner (Musimenta et al., 2017)	Y1	Submitting the annual tax return (SPT Tahunan) on time	Likert 1 to 6 1 = strongly disagree 6 = strongly agree
		Y2	Reporting all business income completely	
		Y3	Submitting tax returns in accordance with actual business conditions	
		Y4	Paying tax payable before the due date	
		Y5	Having no tax arrears	
Legal form	Legal status of the taxpayer's business	BUS	Legal form of the business operated	Dummy (0 or 1) 0 = sole proprietorship 1 = business entity
Business location	Location of the business's subdistrict relative to the Sukoharjo Primary Tax Office	LOK	Subdistrict of business location	Dummy (0 or 1) 0 = far 1 = near
Turnover group	Gross business turnover in one year	OMZ	Gross business turnover group in 2025	Ordinal (1 to 4) 1 = ≤ IDR 500 million

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				2 = > IDR 500 million to IDR 1 billion 3 = > IDR 1 billion to IDR 2 billion 4 = > IDR 2 billion to IDR 4.8 billion
Length of registration	Length of time the taxpayer has been registered and has held a taxpayer identification number (NPWP)	LNP	Length of NPWP ownership	Ordinal (1 to 5) 1 = < 1 year 2 = 1 to 2 years 3 = 3 to 5 years 4 = 6 to 10 years 5 = > 10 years

[a] Item X_3 was removed from the final measurement model (see Section IV).
Source: Developed by the authors (2026)

Table 2a sets out the measurement results of the instrument at three stages. The first column reports the pilot test with 25 respondents, which served as preliminary screening of readability and reliability rather than as an evaluation of the measurement model. The second reports the initial model estimated on the main sample of 100 respondents. The third reports the final model used for hypothesis testing. Presenting the three stages side by side serves two purposes. It documents that no item was removed before the main survey, so the decisions to remove indicators rest on the main sample alone. It also shows which items behaved differently once the questionnaire reached respondents with actual tax experience. The psychological cost item and the tax arrears item are the two cases in which the pilot and the main sample diverge, and both are examined in Section IV. The pilot data were excluded from every estimate reported for the main sample, so the validity and reliability that underlie the hypothesis tests rest on the 100 main survey respondents alone, not on the pilot.

Table 2a. Measurement Results in the Pilot Test and the Main Sample

Construct	Item or Statistic	Pilot (n = 25)	Main Sample, Initial Model	Main Sample, Final Model
Tax compliance costs (X)	X_1 loading	0.833	0.880	0.902
	X_2 loading	0.827	0.840	0.823
	X_3 loading	0.894	0.352	Removed
	Cronbach's α	0.820	0.577	0.664
	ρA	0.866	0.714	0.698
	CR	0.888	0.754	0.854
	AVE	0.726	0.534	0.746
Taxpayer compliance (Y)	Y1 loading	0.832	0.938	0.945
	Y2 loading	0.856	0.936	0.950
	Y3 loading	0.835	0.925	0.935
	Y4 loading	0.849	0.719	0.760
	Y5 loading	0.497	0.668	Removed
	Cronbach's α	0.834	0.894	0.920
	ρA	0.880	0.908	0.937
	CR	0.887	0.925	0.945
	AVE	0.618	0.714	0.812
HTMT (X and Y)		0.374	0.494	0.467

Note: Pilot respondents answered from the perspective of an MSME taxpayer. The pilot was estimated with the full research instrument; only the constructs used in this study are shown. The main sample comprises 100 respondents. Source: SmartPLS 4 output (2026).

In addition to the two main constructs, the model includes four control variables for compliance. Business scale, organizational structure, and tax experience may relate to both compliance behavior and

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the size of compliance costs (Ernest et al., 2022; Lavic, 2023; Peprah et al., 2022). Legal form was coded as a dummy variable with 0 for sole proprietorships and 1 for business entities. Business location was also coded as a dummy variable with 1 for subdistricts near the tax office and 0 for those farther away. This variable captures differences in access to face-to-face services at the tax office. Turnover group was measured ordinally in four categories, from 1 for turnover of up to IDR 500 million to 4 for turnover above IDR 2 billion and up to IDR 4.8 billion. Length of tax registration was measured ordinally in five categories, from 1 for less than one year to 5 for more than ten years. Each control variable was modeled as a single-indicator construct. The control variables were not hypothesized. Their function is to separate the association between compliance costs and compliance from business and taxpayer characteristics that could otherwise explain variation in compliance.

The data were analyzed with PLS-SEM in SmartPLS 4 (Ringle et al., 2024) because the method is prediction-oriented and does not require multivariate normality (Hair et al., 2019; Sarstedt et al., 2022). Binary control variables were left unstandardized. The measurement model was evaluated through outer loadings (≥ 0.70) and average variance extracted (AVE ≥ 0.50). Reliability was assessed with Cronbach's alpha, ρA, and composite reliability (CR ≥ 0.70) (Hair et al., 2019). Indicators loading below 0.40 were removed. Those between 0.40 and 0.70 were removed only when removal improved reliability or was conceptually warranted. For constructs with two items, the Spearman-Brown coefficient was also reported (Eisinga et al., 2013). Discriminant validity was assessed with the Fornell-Larcker criterion and heterotrait-monotrait ratio (HTMT < 0.85). The structural model was evaluated through inner VIF, R^2, and f^2. PLSpredict compared the prediction errors of the PLS model with those of a linear model benchmark (Hair et al., 2019). Hypothesis testing used 5,000 bootstrap subsamples and bias-corrected and accelerated (BCa) confidence intervals. The test was two-tailed at the 5% level. H1 is supported if the p-value is below 0.05 and the confidence interval excludes zero.

IV. RESULTS AND DISCUSSION

Respondent Characteristics and Descriptive Statistics

Table 3 presents the profile of the 100 respondents. Most respondents were male (60%) and aged 36 to 55 years (65%). Their highest education was mostly a diploma or bachelor's degree (44%) or senior high school (43%). Most operated sole proprietorships (86%) with annual turnover of up to IDR 500 million (83%). Only three respondents reported turnover above IDR 1 billion, so micro and small businesses dominate the sample. This composition reflects the typical MSME profile of small scale and a simple organizational structure. Tax experience varied widely across respondents. A total of 23% had held an NPWP for less than three years, and 27% had held one for three to five years. Another 22% had held one for six to ten years, and 28% for more than ten years. Most respondents (65%) operated in the five subdistricts near the tax office listed in the note to Table 3. The remaining 35% operated in subdistricts farther from the office. The respondents came from all 12 subdistricts of the regency. This variation in business and taxpayer characteristics supports the use of legal form, location, turnover group, and length of registration as control variables.

Table 3. Respondent Profile (n = 100)

Characteristic	Category	Number (%)
Gender	Male	60 (60.0)
	Female	40 (40.0)
Age (years)	18 to 25	11 (11.0)
	26 to 35	10 (10.0)
	36 to 45	26 (26.0)
	46 to 55	39 (39.0)
	≥ 56	14 (14.0)
Highest education	Elementary school	1 (1.0)
	Junior high school or equivalent	8 (8.0)
	Senior high school or equivalent	43 (43.0)
	Diploma or bachelor's degree	44 (44.0)

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	Master's or doctoral degree	4 (4.0)
Legal form	Sole proprietorship	86 (86.0)
	Business entity	14 (14.0)
Annual turnover	≤ IDR 500 million	83 (83.0)
	> IDR 500 million to IDR 1 billion	14 (14.0)
	> IDR 1 billion to IDR 2 billion	2 (2.0)
	> IDR 2 billion to IDR 4.8 billion	1 (1.0)
Length of NPWP ownership	< 1 year	11 (11.0)
	1 to 2 years	12 (12.0)
	3 to 5 years	27 (27.0)
	6 to 10 years	22 (22.0)
	> 10 years	28 (28.0)
Location relative to the tax office	Near	65 (65.0)
	Far	35 (35.0)

Note: Each characteristic sums to 100 respondents. “Near” refers to the Sukoharjo, Bendosari, Grogol, Baki, and Mojolaban subdistricts.
Source: Primary data, authors' calculations (2026)

Table 4 presents the descriptive statistics of the measurement items. Respondents perceived monetary and time costs as low. The mean of X_1 was 1.3600, and that of X_2 was 1.7600 on a scale of 1 to 6. A median of 1.0000 for X_1 shows that at least half of the respondents strongly disagreed that they spent considerable money on compliance. Psychological pressure (X_3) was perceived as higher and more variable, with a mean of 3.0000 and a standard deviation of 1.5308. Responses on the compliance items spread across the whole scale, with standard deviations above 1.7. This spread indicates considerable variation in compliance across respondents. The means of Y1 to Y3 ranged from 3.6200 to 3.7100. Payment before the due date had the lowest mean (Y4 = 3.0900). This pattern matches tax office data showing that far fewer MSME taxpayers pay than file (KPP Pratama Sukoharjo, 2025). The absence of tax arrears had the highest mean (Y5 = 4.7800) and a median of 6.0000. Most respondents thus considered themselves free of tax arrears. This high score also suggests limited variation in Y5, which is relevant to the measurement evaluation below.

Table 4. Descriptive Statistics of Measurement Items

Code	Statement	Min.	Median	Max.	Mean	SD
X_1	Incurring considerable costs to fulfill tax obligations	1	1.0000	4	1.3600	0.6745
X_2	Requiring considerable time to fulfill tax obligations	1	1.5000	5	1.7600	0.9224
X_3	Experiencing high psychological pressure when fulfilling tax obligations	1	3.0000	6	3.0000	1.5308
Y1	Submitting the annual tax return (SPT Tahunan) on time	1	4.0000	6	3.7000	2.0176
Y2	Reporting all business income completely	1	4.0000	6	3.6200	1.9111
Y3	Submitting tax returns in accordance with actual business conditions	1	4.5000	6	3.7100	1.9504
Y4	Paying tax payable before the due date	1	3.0000	6	3.0900	1.9441
Y5	Having no tax arrears	1	6.0000	6	4.7800	1.7729

Source: Primary data, authors' calculations (2026)

Data Analysis Results

The initial measurement model showed two loadings below 0.70, namely X_3 (0.3518) and Y5 (0.6680). X_3 fell below 0.40 and was removed (Hair et al., 2019). It reflects an affective reaction rather than resource use and correlated weakly with X1 (r = 0.20) and X2 (r = 0.24). It had loaded 0.894 in the pilot, whose respondents lacked tax experience. Y5 would have met the AVE and CR criteria, but it was removed for conceptual reasons. Having no tax arrears records an administrative status because arrears

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arise only after a tax bill is issued. Overall, 53 respondents gave Y5 the maximum score, including 13 of the 27 respondents with very low scores on Y1 to Y4. After removal, all loadings ranged from 0.7595 to 0.9498 (Table 5). The final cost construct therefore represents resource-based costs only. The compliance construct met all reliability criteria. The cost construct met the CR (0.8540) and AVE (0.7456) criteria, but its Cronbach's alpha (0.6644) and ρA (0.6980) were slightly below 0.70. Its Spearman-Brown coefficient of 0.664 is acceptable in exploratory research (Eisinga et al., 2013; Hair et al., 2019). The bootstrap 95% confidence interval of its CR [0.759, 0.911] lies above 0.70.

Table 5. Outer Loadings, Reliability, Convergent Validity, and Discriminant Validity

Construct	Indicator	Loading	Cronbach's α	ρ_A	CR	AVE	√AVE
Tax compliance costs (X)	X_1	0.9021	0.6644	0.6980	0.8540	0.7456	0.8635
	X_2	0.8231					
Taxpayer compliance (Y)	Y1	0.9453	0.9200	0.9367	0.9448	0.8117	0.9010
	Y2	0.9498					
	Y3	0.9350					
	Y4	0.7595					

Note: √AVE = square root of the average variance extracted. The √AVE of each construct exceeds the correlation between X and Y (0.3752), which satisfies the Fornell-Larcker criterion. The HTMT ratio for X and Y is 0.4673 (95% CI [0.283, 0.662]), which is below the 0.85 threshold. Source: SmartPLS 4 output (2026)

Table 5 shows that the square roots of the AVE of X (0.8635) and Y (0.9010) exceed their correlation (0.3752). The HTMT value of 0.4673 (95% CI [0.283, 0.662]) is well below 0.85, so the constructs are empirically distinct. Inner VIFs ranged from 1.0707 to 1.6691, so collinearity among the predictors is not a concern. The model explains 27.04% of the variance in compliance (R^2 = 0.2704; adjusted R^2 = 0.2316). Compliance costs and the control variables therefore leave most of the variation in compliance unexplained. The effect sizes of compliance costs (f^2 = 0.0562), legal form (0.0632), and length of registration (0.0725) are small (Hair et al., 2019). The PLSpredict results in Table 6 show that all Q^2predict values are positive (0.087 to 0.210). The model therefore outperforms the naive mean benchmark. The PLS model had a lower RMSE than the linear model for two of the four indicators (Y1 and Y3). Hair et al. (2019) classify such an equal split as medium predictive power. Because the comparison is evenly split, the predictive power is placed at the lower bound of medium. The model is therefore more useful for describing the association than for prediction

Table 6. PLSpredict Results for the Taxpayer Compliance Indicators

Indicator	Q^2predict > 0	Lower RMSE than LM
Y1	Yes	Yes
Y2	Yes	No
Y3	Yes	Yes
Y4	Yes	No

Note: Q^2predict values ranged from 0.087 to 0.210. LM = linear model benchmark. Source: SmartPLS 4 output (2026).

Table 7 presents the bootstrapping results. Tax compliance costs are significantly associated with MSME taxpayer compliance (β = 0.2296; t = 2.5959; p = 0.0095). The 95% BCa confidence interval [0.0072, 0.3685] excludes zero, so H1 is supported. The positive sign indicates that respondents who perceive higher resource-based costs tend to report higher compliance. However, the lower bound of the interval is close to zero and the effect size is small. The association should therefore be read as modest. Among the control variables, legal form (β = 0.7361; p = 0.0005) and length of registration (β = 0.2469; p = 0.0156) are positively associated with compliance. Business location (β = -0.0177; p = 0.9336) and turnover group (β = 0.0067; p = 0.9432) show no significant association, and their confidence intervals include zero. The initial model, which retained X_3 and Y5, produced a similar positive coefficient (β = 0.2496; f^2 = 0.0678; R^2 = 0.2900). The direction of the association therefore does not depend on the removal of these two indicators. Removing them mainly improved the quality of the measurement model, as Table 2a shows.

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Table 7. Results of Hypothesis Testing and Control Variables

Relationship	β	t	p	95% CI	Decision
H1: Compliance costs → Compliance	0.2296**	2.5959	0.0095	[0.0072, 0.3685]	Supported
Legal form → Compliance	0.7361	3.4784	0.0005	[0.2942, 1.1282]	-
Business location → Compliance	-0.0177	0.0834	0.9336	[-0.4434, 0.3895]	-
Turnover group → Compliance	0.0067	0.0712	0.9432	[-0.1777, 0.1870]	-
Length of NPWP ownership → Compliance	0.2469	2.4189	0.0156	[0.0367, 0.4344]	-

Source: SmartPLS 4 output (2026)

Note: ** significant at $p < 0.01$. Rows two through five are control variables. All paths were tested using a two-tailed test with bootstrapping of 5,000 subsamples. CI = BCa confidence interval. The coefficients of legal form and business location (binary variables) are unstandardized.

Discussion

The results show a small but significant positive association between monetary and time compliance costs and MSME taxpayer compliance. This direction contrasts with negative findings in Uganda (Musimenta, 2020) and Ethiopia (Mebratu, 2024). It also contrasts with evidence that lower perceived costs raise compliance intention (Saptono et al., 2023). It is closer to studies that find no significant relationship among Ghanaian SMEs (Padi et al., 2025) or less noncompliance among SMEs with higher costs (Bruce-Twum, 2023). It also matches the positive relationship among financial services firms in Uganda (Musimenta et al., 2019). Three differences may explain the divergence. First, many negative findings concern complex regimes (Musimenta, 2020; Saptono et al., 2024), whereas the respondents here face a simple 0.5% turnover tax. Second, perceived monetary and time costs were low on average ($X_1 = 1.36$; $X_2 = 1.76$). The association thus mainly contrasts respondents with minimal costs with those reporting some costs. Third, Saptono et al. (2023) model intention, whereas this study models reported behavior. Perceived monetary cost carried most of the association. The psychological item showed almost no association with compliance (cross-loading = 0.068), so the finding should not be generalized to psychological costs.

The data establish an association but not its direction. A cross-sectional design cannot rule out three alternative explanations. First, the direction may be reversed because taxpayers who file and pay regularly necessarily spend more money and time on compliance. The descriptive pattern supports this reading. Respondents who gave the minimum score on both cost items made up 48% of the sample, and their mean compliance score was 2.99. The mean for the other respondents was 4.02. Second, self-selection may have favored taxpayers who are more engaged with the tax system. Still, 28% of respondents reported low compliance with a mean score of 2 or less. Third, both variables were self-reported in a single questionnaire, which invites common method variance and social desirability bias. The questionnaire did not collect names, which may reduce this bias, but the bias cannot be excluded. For these reasons, the finding is interpreted as an association that is consistent with the inherent nature of compliance costs. It is not evidence that compliance costs raise compliance or that raising these costs would improve compliance.

If the association partly reflects engagement, TCT offers a coherent account. This account remains interpretive because its mechanisms were not measured. Compliance requires transaction-specific investments in knowledge of the rules and Coretax, bookkeeping routines, and filing credentials. Their value is lost if the taxpayer stops complying (Williamson, 1981). Because tax obligations recur monthly and annually, these investments are spread over many transactions. Repeated compliance also reduces procedural uncertainty (Hennart et al., 2022). Taxpayers who have made such investments therefore report higher cumulative costs and have an incentive to keep complying. This pattern is consistent with the logic of sunk cost commitment. It is also consistent with voluntary rather than enforced compliance (Kirchler et al., 2008). Compliance can further generate managerial benefits, such as better records, that offset part of its cost (Evans et al., 2014; Lignier, 2009). These mechanisms suggest that compliance costs are not merely friction for engaged taxpayers. Instead, part of these costs may represent an investment in a continuing relationship with the tax authority. Future studies should test this account by measuring commitment, learning, and perceived benefits directly.

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The institutional context also shapes how compliance costs relate to compliance. The final income tax scheme under Government Regulation Number 55 of 2022 applies a flat rate of 0.5% to gross turnover (Silkapianis et al., 2023). Taxpayers who incur compliance costs can therefore complete their obligations without major procedural barriers. This setting differs from complex regimes in which higher costs coincide with lower compliance (Musimenta, 2020). It also supports the view that compliance is a multifactorial decision that does not depend only on the size of costs (Adem et al., 2024; Bani-Khalid et al., 2022). The control variables add to this picture. Length of registration is positively associated with compliance, plausibly because experience turns procedures into routines. The business entity form is also positively associated with compliance, plausibly because entities have more formal administrative arrangements. In contrast, business location and turnover group show no association once other characteristics are controlled for. Experience and business structure therefore appear to matter more for compliance than physical access to the tax office or turnover scale. These patterns indicate that the way taxpayers organize and repeat compliance tasks may be as important as the costs those tasks impose.

These findings do not support raising compliance costs. A cross-sectional association offers no basis for expecting higher costs to produce higher compliance. Reducing compliance costs remains important, particularly for newly registered taxpayers who are unfamiliar with tax procedures. However, cost reduction alone is unlikely to be sufficient. The tax authority should also improve the quality of the compliance experience because psychological costs reduce compliance (Pradina et al., 2023). Satisfaction with electronic filing systems also increases MSME compliance (Ariyanto et al., 2024). In Sukoharjo Regency, Coretax difficulties are a documented problem (KPP Pratama Sukoharjo, 2025). The tax office can respond with simpler procedures, Coretax assistance, and responsive services (Juwita et al., 2024; Qadri et al., 2021). Tax classes, filing assistance, and collaboration with MSME centers can deliver this support. New taxpayers and sole proprietorships should receive priority because registration length and legal form are associated with compliance. Such guidance can help taxpayers view compliance costs as a normal part of business management. Theoretically, the findings suggest that compliance costs within the TCT framework do not always act as an impediment. The design of compliance processes and the experience they create also matter for MSME taxpayer compliance.

V. CONCLUSION

This study examined the relationship between tax compliance costs and MSME taxpayer compliance in Sukoharjo Regency. It used PLS-SEM and a two-tailed test of a nondirectional hypothesis on 100 MSME taxpayers while controlling for four business and taxpayer characteristics. Monetary and time compliance costs show a small but significant positive association with compliance, so H1 is supported. The association remains positive when the removed indicators are retained. Legal form and length of registration are positively associated with compliance, whereas business location and turnover group are not. The design is cross-sectional and based on perceptions. The result therefore does not establish that compliance costs cause compliance, and more compliant taxpayers may simply incur higher costs. Theoretically, the study offers evidence consistent with a reading of TCT in which part of compliance costs reflects engagement with the tax system. In this reading, these costs act partly as an investment in the tax relationship rather than as pure friction. Practically, strategies to improve MSME compliance should address the quality of the compliance process. They should not focus only on the level of costs that taxpayers bear.

This study has several limitations. First, the sample consists of 100 purposively selected respondents from one regency and is dominated by micro-scale sole proprietorships. The findings therefore apply to MSMEs in Sukoharjo Regency and cannot be statistically generalized. Second, the cross-sectional design supports conclusions about association only, and the reverse direction cannot be ruled out. Third, both constructs were self-reported in one survey, so social desirability and common method variance may affect the estimates. Fourth, the final cost construct has two indicators, and its Cronbach's alpha and ρA fall slightly below 0.70. The construct also excludes psychological costs. Most respondents reported minimal monetary costs, which limits the variance of the predictor. Fifth, the

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model explains 27.04% of the variance in compliance. The effect size of compliance costs is small, and predictive power is at the lower bound of medium. Sixth, respondents who agreed to participate may be more engaged with the tax system than nonrespondents. This possibility could strengthen a positive association in the data. These limitations should be weighed carefully when interpreting the positive direction of the association.

Future research should use probability sampling across several regions. It should also link survey responses to tax office records of filing and payment so that compliance is measured objectively. Panel or longitudinal designs are needed to establish the direction of the relationship between compliance costs and compliance. Compliance costs should be measured with several indicators for each dimension, including psychological costs. They should also be estimated directly in rupiah and working hours. Future studies should directly measure the proposed mechanisms of commitment, learning, perceived managerial benefits, and service experience. Comparisons across regions and business sectors can test whether the positive direction holds in other settings. Mixed-methods designs can explore why taxpayers keep complying despite bearing costs. For the Sukoharjo Primary Tax Office, efforts to improve MSME compliance should not focus only on reducing costs. They should combine cost reduction with simpler procedures and assistance in using Coretax. Guidance for new taxpayers and sole proprietorships also needs strengthening. These efforts are expected to improve the compliance experience of taxpayers so that MSME compliance increases in a sustainable way

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