



Received: May 12, 2024

Revised: July 12, 2024

Accepted: July 27, 2024

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FINANCE | RESEARCH ARTICLE

The Effect of Tax Knowledge and Tax Sanctions on Taxpayer Compliance in The Millennial Generation in Karawang with Tax Awareness as Moderation Variable

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Abstract: This study aims to determine the effect of tax knowledge and tax sanctions on taxpayer compliance in the millennial generation in Karawang, with tax awareness as a moderating variable. This study's sample is the Millennial Generation in Karawang, Generation Y, born between 1982 and 1996. Disseminating questionnaires online, namely filling out Google forms with as many as 110 samples. Hypothesis testing is using a structural equation model. The results of this study provide the following: It can be concluded that tax knowledge positively influences taxpayer compliance, and tax sanctions do not. Furthermore, tax awareness can strengthen the positive perspective of tax knowledge on taxpayer compliance. Tax awareness can strengthen the negative perspective of tax sanctions on taxpayer compliance.

Keywords: Tax Knowledge, Tax Sanctions, Taxpayer Compliance, Tax Awareness.

JEL Classification Code: H24, H26, M41, M48

1. INTRODUCTION

Millennials, often referred to as Generation Y, are a group that grew up in the digital age and are very familiar with technology. They are the first generation to consider the Internet a great invention that quickly and easily facilitates all human needs (Rosdiana, 2020). The internet has influenced almost all aspects of their lives, from how they communicate and work to shopping. However, this convenience also brings its challenges. Research shows millennials tend to spend more money than they have, often leading to financial problems (Aini & Lutfi, 2019).

According to research conducted by OCBC NISP (2022) on the Financial Fitness Index, as many as 85.6% of young people in Indonesia are considered "less healthy" financially, while only 14.3% are considered "healthy." This data shows that the majority of millennials in Indonesia have problems managing their finances. In addition, the financial literacy of the younger generation in Indonesia only reached 37.72 points, much lower than Singapore's 61 points. This low financial literacy is one of the main causes of millennials' financial problems. Tax is a contribution that must be paid by every individual or entity forced to the state based on the law. This tax is used to finance various state needs without directly rewarding taxpayers. However, the millennial generation's understanding and awareness of tax obligations are still low. This is exacerbated by their low financial literacy, which makes this generation less aware of the importance of taxes and their impact on state development.

Tax compliance becomes an important issue in this context. Millennials, who grow up in a fast-paced and instant environment, often pay little attention to their tax obligations. Awareness and knowledge of taxation are very important to create good tax compliance. Tax knowledge helps taxpayers understand their tax rules and obligations, while tax sanctions remind them of the consequences of non-compliance. This research focuses on millennials in Karawang, an industrial city experiencing rapid economic growth. With a large millennial population, Karawang is an appropriate place to study tax compliance behavior among this generation. This study analyzes the effect of tax



knowledge and tax sanctions on taxpayer compliance among millennials, with tax awareness as a moderating variable.

Tax awareness is expected to increase the effect of knowledge and tax sanctions on tax compliance. With increased tax awareness, millennials are expected to understand better the importance of paying taxes and its positive impact on the country's development. In addition, this awareness is also expected to reduce excessive consumptive behavior and increase financial responsibility among millennials. This research is important in efforts to improve tax compliance in Indonesia. The government can design more effective strategies and policies to increase tax awareness and compliance by understanding the factors influencing millennials' tax compliance. This will increase the country's tax revenue and encourage sustainable economic development.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Taxation Knowledge

Hertati (2021) states that individuals required to pay taxes must know about the General Provisions and Procedures for Taxation (KUP), Taxation in Indonesia, and the function of taxation. Indicators of tax knowledge Rahayu (2017) in (Wahjudi & Nasharani, 2023) Knowledge of general provisions and procedures for taxation (KUP), knowledge of the taxation system in Indonesia, and knowledge of the function of taxation in Indonesia.

2.2. Tax Sanctions

According to Arofahmawati et al. (2023), tax sanctions are penalties given to individuals who violate tax laws. Mulyati and Ismanto (2021), as cited in Sianturi and Hantono's research (2022), identified several indicators for tax sanctions. First, sanctions are given if there is a delay in reporting and paying taxes. Second, there are levels in the application of tax sanctions, which show variations in penalties based on the type of offense. Third, sanctions are imposed on taxpayers to increase their compliance. Finally, the removal of sanctions can also play a role in increasing taxpayer compliance, as it provides an incentive for them to fulfill their tax obligations in the future.

2.3. Taxpayer Compliance

According to Juliantari et al. (2021), taxpayer compliance is God's responsibility and that of the government to carry out their tax obligations. Taxpayer compliance can be identified through several indicators described by Rahayu (2017) in Wahjudi and Nasharani (2023). These indicators include the obligation to register and obtain a TIN by the law promptly and not to be late in depositing taxes owed. In addition, taxpayers must report tax calculations promptly and calculate taxes according to applicable regulations. Compliance also includes timeliness in calculating and reporting taxes, ensuring applicable regulations carry out all tax obligations.

2.4. Tax Awareness

According to Goni et al. (2022), awareness of paying taxes is part of the human understanding of reality and the actions needed to fulfill the obligation to pay taxes for the common good. Human awareness includes understanding the self, others, the past, and the future. Irianto, in Darmawan (2020), outlines several indicators of taxpayer awareness, cited in Wahjudi and Nasharani (2023). First, awareness that paying taxes is a form of participation in supporting state development. Second, awareness that delays in tax payments by taxpayers will hamper the country's development. Third, awareness that tax laws can be imposed on taxpayers, and taxpayers must comply with the regulations set by law.

3. RESEARCH METHOD AND MATERIALS

This research uses primary data obtained through an online survey. It distributed questionnaires to 110 respondents from the millennial generation in Karawang. The questionnaire was filled in using Google Forms, and the approach used in this research is quantitative. The variables used in this study include knowledge of taxation, tax sanctions, tax compliance, and tax awareness. Permana and Susilowati (2021) explain that knowledge of taxation includes taxpayers' understanding of the general provisions and procedures for taxation (KUP), the tax system in Indonesia, and the function of taxation. According to Pebrina and Hidayatullah (2020), tax sanctions provide a deterrent effect so that people do not make the same mistakes in the future. According to Arwana (2020), tax compliance is a condition in which taxpayers fulfill their tax obligations correctly and on time. Indicators of tax compliance include registering NPWP on time, not being late in depositing and reporting taxes, and calculating taxes by applicable regulations. According to Pringgandani and Suryana (2019), tax awareness includes an understanding that paying taxes is a form of participation in the country's development and that delaying tax payments can hinder development. Data was collected through questionnaires distributed to individual taxpayers (WPOP) in Karawang. After the respondents completed the questionnaires, their validity and reliability were tested to ensure data quality. The validity test aims to measure the accuracy of the statements in the study, while the reliability test aims to measure the consistency of all statements in the study. The data analysis methods used include descriptive statistical tests to provide an overview and explanation of various parts of the data, such as mean, median, variance, standard deviation, and maximum value. In addition, multiple linear regression analysis was used to analyze the relationship between the independent and dependent variables. The coefficient of determination (R²) measures the extent to which the model can explain the dependent variable. Furthermore, to test the effect of tax awareness as a moderating variable on the effect of the independent variable on the dependent variable, moderation regression analysis was used. The F test was conducted to measure the simultaneous significance of all independent variables on the dependent variable. In contrast, the T-test was used to partially measure the significant effect of the independent variable on the dependent variable.

4. RESULTS AND DISCUSSION

4.1. Method (PLS)

Partial Least Square (PLS) is the application used in this study in data processing. The reason for using this application is to explain whether or not there is a relationship between latent variables and when the variable indicators are mutually exclusive with current conditions, experts' opinions, and previous research results to test theory-based modeling. Based on theory and previous research results, the tested variables consist of independent variables: tax knowledge (X1) and tax sanctions (X2). After determining each variable reinforced by theory and previous research, researchers prepared data from field observations, collected questionnaires, and built Partial Least Square (PLS) models.

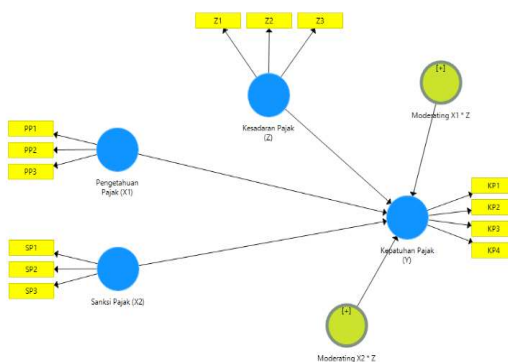


Figure 1. Relationship Between Each Variable By Testing Each Variable's Indicators

4.2. Outer Method (PLS)

Figure 1 explains the relationship between each variable by testing each variable's indicators, and the analysis results are shown in Figure 2 next.

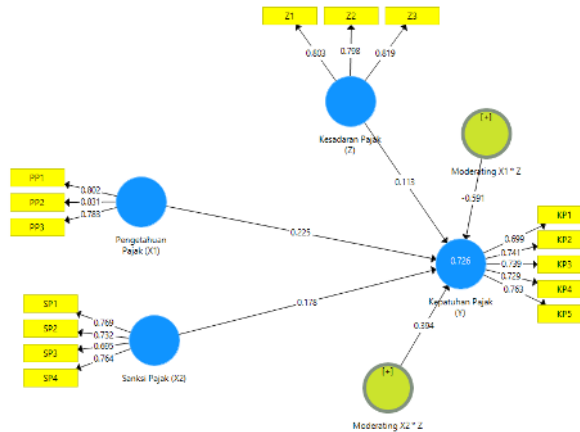


Figure 2. PLS Inner Method

4.3. Model Evaluation Convergent Validity

An indicator is declared valid if the outer loading value is > 0.7 . The table below is the outer loading of each indicator on the research variables:

Table 1. Outer Loading

Indicator	Variables	Outer Loading	Description
Pajak Ketauhan (X1)	PP1	0.802	Valid
	PP2	0.831	Valid
	PP3	0.783	Valid
Sanksi Pajak (X2)	SP1	0.769	Valid
	SP2	0.732	Valid
	SP3	0.695	Invalid
	SP4	0.764	Valid
Kepatuhan Pajak (Y)	KP1	0.699	Invalid
	KP2	0.741	Valid
	KP3	0.739	Valid
	KP4	0.729	Valid
	KP5	0.763	Valid

Based on the outer loading test, the results show that 10 indicator variables have an outer loading value > 0.7 and 2 indicators < 0.7 but not below 0.6. So that all indicators are declared feasible for use in research and can be used for further analysis.

4.4. Calculated Composite Reliability

This test is used to test the reliability of indicators on a variable. The reliability of this research instrument was tested using composite reliability and Cronbach's Alpha coefficient. A construct can be reliable if the composite reliability or Cronbach's Alpha value is higher than 0.7 (Nunnally, 1996 in Ghozali, 2014). In addition, AVE measurement is used to measure the reliability of the latent variable component score, and the results are also more conservative than composite reliability. The AVE value exceeds 0.5 (Fornell & Larcker, 1981; Ghozali, 2014).

Table 2. Cronbach's Alpha, Composite Reliability, and AVE Test Results

Variable	Cronbach's Alpha	rho_A	Composite Reliability	AVE	Notes
Tax Compliance (Y)	0.787	0.789	0.854	0,54	Reliable
Tax Awareness (Z)	0.733	0.736	0.848	0.651	Reliable
Moderating X1*Z	0.983	1	0.985	0.877	Reliable
Moderating X2*Z	0.987	1	0.988	0.874	Reliable
Tax Knowledge (X1)	0.959	0.728	0.847	0.649	Reliable
Tax Penalty (X2)	0.755	0.727	0.829	0.549	Reliable

The test results based on Table 2 show that the composite reliability and Cronbach's Alpha results show satisfactory values, namely the value of each variable above the minimum value of 0.70. The AVE value generated by all constructs is above > 0.50, so all variables have a high level of reliability.

4.5. Discriminant Validity Test

Discriminant validity relates to the principle that measures (manifest variables) of different constructs should not be highly correlated. The way to test discriminant validity with reflection indicators is to compare each AVE square root to the correlation value between constructs. If the AVE square root value is higher than the correlation value between constructs, it is declared to meet the Discriminant Validity criteria (Ghozali, 2015).

Table 3 Discriminant Validity Test

Variable	Tax Compliance (Y)	Tax Awareness (Z)	Moderating X1*Z	Moderating X2*Z	Tax Knowledge (X1)	Tax Penalty (X2)
Tax Compliance (Y)	0.735					
Tax Awareness (Z)	0.726	0.807				
Moderating X1*Z	-0.802	-0.78	0.937			
Moderating X2*Z	-0.76	-0.759	0.983	0.935		
Tax Knowledge (X1)	0.737	0.698	-0.764	-0.76	0.805	
Tax Penalty (X2)	0.78	0.787	-0.812	-0.774	0.769	0.741

Table 3 shows that the diagonal is the square root of the AVE, and the value below shows the relatedness of the different parts. The square root of the AVE > the correlation value, which means the model is valid because it shows the parts are different from each other.

4.6. Inner Model Test

The path coefficient evaluation shows how much one thing affects another, while the coefficient of determination shows how much one thing is affected by another. The effect is strong if the coefficient of determination is 0.67 or higher. It is moderate if it is between 0.33 and 0.67 and weak if it is between 0.19 and 0.33. In this model, all the effects are positive. The R-Square value of taxpayer compliance of 0.726, which is very strong. This value indicates that 72.6% of taxpayer compliance can be explained by taxpayer knowledge, tax sanctions, and tax awareness, while the other 27.4% is caused by different factors not examined.

4.7. Hypothesis Test Calculations

In a hypothesis, testing is done by testing the structural model called the inner model, which is seen as path coefficients that show the parameter coefficients and the significance value of the t statistics. Parameter significance provides information about the correlation between the research variables studied. The proposed hypothesis limit is sig P Values <0.05. Table 5 below will present the output for testing the inner model.

Table 5. Hypothesis Test except for Path Coefficient

Variable	Originally Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Tax Knowledge (X1) -> Tax Compliance (Y)	0.225	0.209	0.095	2.371	0.009
Tax Penalty (X2) -> Tax Compliance (Y)	0.178	0.186	0.116	1.538	0.062

Based on the inner weight value consisting of the Implementation of Tax Knowledge (X1) and Tax Sanctions (X2), it can be seen partially its effect on Taxpayer Compliance (Y).

Testing Hypothesis One (H1)

The first hypothesis (H1) is that there is a positive influence between tax knowledge and taxpayer compliance. Table 5 shows that the tax knowledge variable has a significance level of 0.009, meaning $\alpha < 0.05$, so H1 is accepted. The hypothesis test results show that tax knowledge (X1) positively affects taxpayer compliance (Y).

Second Hypothesis Testing (H2)

The second hypothesis is that there is a positive influence between tax sanctions and taxpayer compliance. Table 5 shows the results that the tax sanction variable (X2) does not have a significant level of influence with a value of 0.062, which is greater than 0.05 ($\alpha > 0.05$), so H2 is rejected. The hypothesis test results show that tax sanctions (X2) do not significantly affect taxpayer compliance (Y).

Table 6. Hypothesis Test based on the Moderator Effect

Variable	Originally Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Moderating X1 * Z -> Tax Compliance (Y)	-0.591	-0.537	0.219	2.693	0.004
Moderating X2 * Z -> Tax Compliance (Y)	0.394	0.336	0.205	1.925	0.027

Third Hypothesis Testing (H3)

The third hypothesis (H3) states that tax awareness strengthens the positive effect of tax knowledge on taxpayer compliance. The table above shows that the taxpayer awareness variable has a significance level of 0.004, which means <0.05. This means that the higher the tax knowledge moderated by taxpayer awareness, the more taxpayer compliance will increase. This means that H3 is accepted, so it can be stated that tax knowledge (X1) has a positive effect on taxpayer compliance (Y) moderated by tax awareness (Z). This shows that the tax awareness variable (Z) is a moderating variable that strengthens the relationship between tax knowledge (X1) and taxpayer compliance (Y).

Testing the Fourth Hypothesis (H4)

The fourth hypothesis states that tax awareness strengthens the negative effect of tax sanctions on taxpayer compliance. The table above shows that the taxpayer awareness variable has a significance level of 0.027, which means <0.05 . This shows that H4 is accepted, so it can be said that the taxpayer awareness variable is a moderating variable that can strengthen the relationship between tax sanctions and taxpayer compliance.

4.8. Effect of Tax Knowledge on Taxpayer Compliance

The results showed that taxpayer knowledge positively and significantly affects taxpayer compliance. The higher the taxpayer's knowledge, the better the taxpayer's compliance. With increasing taxation knowledge, taxpayers are increasingly aware of their taxation rights and obligations. Indicators of taxation knowledge are knowledge of general provisions and tax procedures, the Indonesian taxation system, and knowledge of taxation functions. Taxpayers know the existence of tax laws and regulations, understand the role of taxes, and calculate, pay, and report taxes voluntarily and accurately. This is because taxpayers understand that tax funds paid to the government are used to improve infrastructure and public facilities that benefit the general public. Good tax knowledge will help taxpayers better understand and carry out their tax obligations. A deep understanding of tax regulations, the tax system in Indonesia, and the function of taxes will encourage taxpayers to be more compliant. Good knowledge will also reduce errors in calculating, paying, and reporting taxes, thereby increasing compliance.

4.9. The Effect of Tax Sanctions on Taxpayer Compliance

The results of this study indicate that tax sanctions hurt taxpayer compliance. Tax sanctions cannot affect taxpayer compliance in carrying out their tax obligations. The indicators that make up tax sanctions are delays in reporting and paying taxes must be sanctioned, the level of application of sanctions by the government, sanctions are used to increase taxpayer compliance, and the elimination of sanctions increases taxpayer compliance. Although tax sanctions are designed to encourage compliance, this study shows that sanctions are not always effective in influencing taxpayer compliance. The sanctions applied may not be enough to provide a deterrent effect. Perhaps taxpayers are more influenced by other factors, such as their understanding and awareness of the importance of taxes for development.

4.10. The Effect of Tax Knowledge on Taxpayer Compliance with Tax Awareness as a Moderating Variable

The results showed that taxpayer knowledge positively and significantly affects taxpayer compliance. The better the addition of tax awareness strengthens the taxpayer's knowledge, the more taxpayer compliance will increase. This can be caused by tax knowledge coupled with tax awareness owned by taxpayers, increasing taxpayer compliance in fulfilling their tax obligations.

4.11. The Effect of Tax Sanctions on Taxpayer Compliance with Tax Awareness as a Moderating Variable

The results showed that tax sanctions negatively or negatively affected taxpayer compliance. However, tax sanctions (X2), which are strengthened by tax awareness (Z), can increase or strengthen taxpayer compliance. This can be caused by taxpayers being aware of their tax responsibilities, whether they are subject to sanctions or not. These taxpayers will comply with tax obligations due to their awareness of tax compliance.

Tax awareness plays an important role in strengthening the influence of tax knowledge on taxpayer compliance. Taxpayers who are highly aware will be more likely to comply with tax regulations because they understand the importance of taxes for development and public welfare. Thus, increasing tax awareness can strengthen the positive influence of tax knowledge on taxpayer compliance.

Tax awareness can also strengthen the effect of tax sanctions on compliance. Taxpayers aware of their tax responsibilities will be more likely to comply with regulations despite the presence or absence of sanctions. This suggests that increasing tax awareness can effectively improve taxpayer compliance through better knowledge and applying appropriate sanctions.

5. CONCLUSION

Based on the data analyzed using the Smart PLS application, several conclusions can be drawn. First, higher tax knowledge leads to higher taxpayer compliance in fulfilling tax obligations, indicating that a good understanding of tax regulations and systems encourages compliance. Second, the results showed that increasing tax sanctions did not affect taxpayer compliance, suggesting that sanctions alone are insufficient to encourage compliance, and other factors may better influence taxpayer behavior. Third, tax knowledge reinforced by tax awareness increases taxpayer compliance, as high tax awareness helps taxpayers understand the importance of taxes for development and community welfare, leading to greater compliance. Fourth, while tax sanctions do not directly affect taxpayer compliance, when moderated by tax awareness, sanctions can strengthen compliance, as tax awareness makes taxpayers more responsible and compliant in fulfilling their tax obligations, regardless of the presence of sanctions. This research has limitations, notably that respondents were limited to the millennial generation in Karawang, which may result in differing perceptions among other generations and an understanding of the variables studied. Thus, further research with a broader and more diverse range of respondents is needed to obtain more comprehensive results.

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