

Internal and External Determinants of Tax Morale of MSME Actors: A Contemporary Empirical Research”

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Abstract

This research aims to analyze the influence of internal and external factors on the tax morale of Micro, Small, and Medium Enterprises (MSMEs) in Bengkalis Island. The examined variables include trust in government, trust in tax administration, nationalism, perceived probability of being caught, severity of punishment, and tax literacy. A quantitative approach was employed using Structural Equation Modeling based on Partial Least Squares (SEM-PLS). Data were collected through questionnaires distributed to MSME taxpayers, with a population of 9,452 and a sample determined using Slovin's formula with a 10% margin of error. The results reveal that trust in government, nationalism, perceived probability of being caught, and severity of punishment have significant positive effects on tax morale. In contrast, trust in tax administration and tax literacy show no significant effect. These findings indicate that MSME taxpayers' moral behavior is more influenced by social and institutional factors rather than cognitive factors. It is recommended that local governments enhance fiscal transparency, foster fiscal nationalism, and strengthen fair law enforcement to promote higher tax morale and compliance among MSMEs in island regions.

Keywords: *tax morale, trust, nationalism, perceived probability of being caught, severity of punishment, tax literacy MSMEs.*

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in Indonesia's economy, including serving as a potential source of state tax revenue. However, tax contributions from MSMEs remain suboptimal, particularly in island regions such as Bengkalis Island, which exhibit social, economic, and geographical characteristics distinct from urban centers. In the taxation context, formal compliance is influenced not only by regulations but also by tax morale, which represents the internal motivation of individuals to voluntarily pay taxes. Therefore, understanding the factors shaping MSME taxpayers' tax morale is highly relevant. Contemporary studies indicate that both internal and external factors significantly contribute to tax morale. Ciziceno et al. (2022) found that tax morale is influenced by psychological and social values, including nationalism and trust in public institutions, reinforcing the importance of a non-deterrent approach in explaining tax behavior.

However, a number of MSME-focused studies conducted in Indonesia demonstrate that perceptions of risk such as the possibility of being detected and the harshness of the penalty continue to be external variables influencing compliance. Recent research, however, shows mixed results; some indicate that law enforcement's influence decreases when trust levels are high, while others describe considerable deterrent effects.

Although numerous studies have examined tax morale, most have focused on urban or major provincial areas. Research targeting island regions such as Bengkalis Island remains limited, even though social-cultural conditions, access to information, interactions with tax authorities, and regional identity can shape MSME taxpayers' moral character differently. Therefore, researching MSME tax morale through the lens of internal and external determinants is not only theoretically relevant but also offers practical contributions to strengthening tax compliance based on local characteristics. This research aims to provide contemporary empirical insights into how internal and external determinants shape MSME tax morale in Bengkalis Island. The findings are expected to reinforce theoretical foundations

of tax compliance behavior while offering policy recommendations relevant for fiscal authorities and local governments.

This research offers novelty by simultaneously testing six determinants of tax morale, encompassing both internal and external aspects rarely examined within a single integrated model. Most prior studies have focused on urban or major provincial regions. Research in island settings such as Bengkalis Island remains scarce, despite social-cultural conditions, access to information, interactions with tax authorities, and regional identity potentially differentiating MSME taxpayers' moral characteristics. Additionally, the use of Structural Equation Modeling (SEM) enables a more comprehensive and accurate analysis compared to conventional approaches. This research further enriches the literature by integrating psychological, institutional, and cognitive perspectives in understanding contemporary MSME tax behavior.

2. REVIEW OF LITERATURE

Tax Morale

Tax morale serves as the foundation for voluntary compliance and has become a central issue in contemporary taxation studies, particularly within the MSME sector, which is characterized by informality, administrative limitations, and heterogeneous fiscal behavior. Literature from the past five years emphasizes that tax morale is shaped not only by legal obligations but also by internal determinants, such as nationalism and tax literacy, as well as external factors, including trust in government, the quality of tax administration, perceived risk of being caught, and the severity of punishment. Tax morale represents an internal attitude or value that motivates taxpayers to pay taxes voluntarily without external coercion. According to Kirchler et al. (2018), tax morale reflects social trust, fiscal fairness, and the quality of the relationship between the government and society. Research by Luttmer and Singhal (2022) demonstrates that high tax morale promotes sustainable tax compliance, particularly in the MSME sector, which forms the backbone of local economies.

Trust in Government

Trust in government is a crucial factor in establishing moral legitimacy for tax compliance. Taxpayers who believe that the government utilizes tax revenues fairly and transparently tend to exhibit higher tax morale (Torgler & Schneider, 2022). Riahi-Belkaoui (2020) also emphasizes that fiscal trust strengthens the perception of the benefits of taxation for societal welfare, thereby fostering voluntary compliance. Trust in government has been shown to reinforce fiscal legitimacy when citizens perceive that public funds are managed fairly and transparently (Ciziceno & Pizzuto, 2022; OECD, 2022).

Trust in Tax Administration

Trust in tax administration reflects taxpayers' perception of the professionalism and integrity of tax officers. Nguyen et al. (2021) found that distrust in tax administration can reduce tax morale even when government policies are considered good. However, a research by Andreas & Savitri (2020) in Indonesia indicated that the impact of administrative trust on tax morale may be weak if the service system is perceived as complex and bureaucratic. Trust in tax administration also plays a significant role, as professional, efficient, and corruption-free services foster positive perceptions of the tax system (OECD, 2021).

Nationalism

Nationalism represents a sense of patriotism that motivates individuals to contribute to national development through taxes. Alabede (2020) and Hartner et al. (2021) assert that nationalism significantly enhances tax morale because taxpayers with strong national identity

view taxes as a moral responsibility toward the state. In the MSME context, nationalism also reinforces social awareness to support local economic development. Internally, nationalism or a sense of belonging to the country acts as a moral driver, encouraging MSME actors to see taxes as contributions to collective welfare (Castañeda-Rodríguez & Lisi, 2024).

Perceived Likelihood of Being Caught

Perceptions of the likelihood of being caught represent an external control that influences tax behavior. Jimenez & Iyer (2019) found that higher perceived detection risk correlates with higher tax morale. Recent research in Indonesia by Sari and Nugroho (2023) shows that digital monitoring and online reporting systems increase detection perception, positively affecting tax morale. Findings from the U.S. Treasury (2023) suggest that enhancing audit risk perception and implementing proportional sanctions can reduce tax avoidance intentions; however, effectiveness is heavily influenced by perceptions of fairness and policy consistency.

Severity of Punishment

The severity of punishment functions as a deterrence factor for tax violations. Alm and Torgler (2020) state that firm but proportional sanctions can promote fiscal fairness and strengthen tax morale. Lestari and Suryadi (2022) found that taxpayers are more likely to comply when they perceive the tax sanction system as fair and consistently applied.

Tax Literacy

Tax literacy acts as a cognitive bridge influencing MSME actors' awareness, understanding, and confidence regarding tax obligations. Studies by Ristanto (2024) and Arifin (2024) note that low tax knowledge is a major barrier to weak tax morale among MSMEs in various regions. Recent research also indicates that a combination of education, effective tax services, and strengthened national identity is more effective than approaches relying solely on sanctions or administrative appeals. Tax literacy reflects taxpayers' understanding of their rights, obligations, and the benefits of taxation for the state. According to Susanti et al. (2021), good tax literacy increases formal compliance but does not necessarily strengthen tax morale if not accompanied by trust in tax institutions. Putri and Yasa (2023) also found that in regions with low educational levels, the influence of tax literacy on tax morale tends to be insignificant.

3. METHOD

Data Collection

This research is quantitative research using primary data obtained through questionnaires. The sample selection technique uses a non probability sampling approach, namely purposive sampling. Purposive sampling is a method for selecting a sample according to particular criteria (Sugiyono, 2023). The criteria used are MSME actors who have been running their businesses for more than one year and are located on Bengkalis Island. The research population consists of 9,452 MSMEs, and the sample was determined using Slovin's formula with a 10% margin of error, resulting in approximately 100 respondents. Data were collected through a Likert-scale questionnaire containing indicators for six independent variables: trust in government, trust in tax administration, nationalism, perceived likelihood of being caught, severity of punishment, and tax literacy, as well as one dependent variable: tax morale. Data analysis was conducted using Structural Equation Modeling (SEM) with WarPLS 7.0.

Research Participants

The following presents the characteristics of the respondents who completed the questionnaire in this research.

Table 1. Characteristics of Respondents

	Variabel	Frekuensi	%	Total	%
Gender	Male	51	51%	100	100%
	Female	49	49%		
age	20 – 30 Years	32	30%	100	100%
	31 – 40 Years	30	39%		
	41 – 50 Years	24	19%		
	> 50 Years	14	13%		
level of education	Elementary School	6	5%	100	100%
	Junior High School	7	5%		
	Senior High School	50	55%		
	Diploma 2	1	1%		
	Diploma 3	14	10%		
	Undergraduate	20	23%		
	Postgraduate	2	1%		
Type of Business	Services	23	30%	100	
	Manufacturing	34	31%		
	Trading	43	39%		
Business Location	Bantan Subdistrict	12	8%	100	100%
	Bengkalis Subdistrict	88	92%		

Source: Research Data, 2025

4. RESULT & DISCUSSION

Outer Loading atau Loading

Outer loading is a value that describes the relationship (correlation) between an indicator and its latent variable. The higher the outer loading, the stronger the relationship between an indicator and its latent variable. Outer loading values greater than 0.7 are considered acceptable, while values below 0.4 are always eliminated from the analysis process. An outer loading value greater than 0.7 means that approximately 50% of the variability of an indicator is explained or absorbed by its latent variable. In general, outer loading values between 0.4 and 0.7 can be considered for elimination if removing them improves the composite reliability or average variance extracted (AVE) (Hair et al, 2014). The following are the WarpPLS results for outer loading (loading):

Table 2. Combined Loading dan Cross Loading

	X1	X2	X3	X4	X5	X6	Y	Pvalue
X11	(0.821)	-0.006	-0.622	0.081	0.212	-0.244	-0.217	<0.001
X12	(0.822)	-0.036	-0.290	-0.195	0.066	0.014	0.068	<0.001
X13	(0.859)	0.027	-0.254	-0.049	-0.057	-0.040	0.097	<0.001
X14	(0.842)	-0.033	1.006	0.000	0.000	0.000	0.000	<0.001
X15	(0.869)	0.008	0.147	0.051	-0.074	0.022	0.033	<0.001
X16	(0.847)	0.022	0.298	-0.090	-0.104	0.240	0.095	<0.001
X17	(0.852)	0.016	-0.305	0.196	-0.032	0.001	-0.083	<0.001
X21	0.000	(1.000)	0.000	0.000	0.000	0.000	0.000	<0.001
X22	0.000	(1.000)	0.000	0.000	0.000	0.000	0.000	<0.001
X23	0.000	(1.000)	0.000	0.000	0.000	0.000	0.000	<0.001
X24	0.000	(1.000)	0.000	0.000	0.000	0.000	0.000	<0.001
X25	0.000	(1.000)	0.000	0.000	0.000	0.000	0.000	<0.001
X26	0.000	(1.000)	0.000	0.000	0.000	0.000	0.000	<0.001

	X1	X2	X3	X4	X5	X6	Y	Pvalue
X27	0.000	(1.000)	0.000	0.000	0.000	0.000	0.000	<0.001
X31	0.000	-0.033	(0.999)	0.000	0.000	0.000	0.000	<0.001
X32	0.000	-0.033	(0.999)	0.000	0.000	0.000	0.000	<0.001
X33	0.000	-0.033	(0.999)	0.000	0.000	0.000	0.000	<0.001
X34	0.004	0.988	(0.200)	-0.002	0.006	0.021	-0.008	0,041
X35	0.000	-0.033	(0.999)	0.000	0.000	0.000	0.000	<0.001
X36	0.000	-0.033	(0.999)	0.000	0.000	0.000	0.000	<0.001
X37	0.000	-0.033	(0.999)	0.000	0.000	0.000	0.000	<0.001
X41	-0.609	0.096	0.473	(0.728)	-0.170	-0.010	0.119	<0.001
X42	-0.132	0.066	0.179	(0.740)	-0.195	0.270	0.083	<0.001
X43	-0.082	0.062	0.058	(0.727)	0.033	-0.093	-0.072	<0.001
X44	-0.003	-0.032	0.051	(0.834)	0.033	-0.058	-0.041	<0.001
X45	0.136	-0.062	-0.119	(0.870)	-0.054	-0.034	-0.022	<0.001
X46	0.256	-0.060	-0.223	(0.765)	0.340	-0.111	-0.183	<0.001
X47	0.340	-0.044	-0.337	(0.854)	0.004	0.044	0.114	<0.001
X51	0.477	0.032	-0.560	0.014	(0.697)	-0.012	-0.015	<0.001
X52	0.115	0.052	-0.018	-0.042	(0.757)	0.033	-0.086	<0.001
X53	-0.278	0.094	0.248	-0.149	(0.768)	0.028	0.183	<0.001
X54	-0.139	-0.050	-0.061	0.099	(0.787)	0.076	-0.030	<0.001
X55	0.170	-0.044	-0.100	0.162	(0.831)	-0.064	-0.105	<0.001
X56	-0.254	-0.050	0.345	0.002	(0.766)	-0.128	0.019	<0.001
X57	-0.053	-0.024	0.095	-0.092	(0.840)	0.063	0.037	<0.001
X61	0.034	0.024	-0.072	-0.115	-0.067	(0.815)	0.114	<0.001
X62	0.523	0.142	-0.540	-0.171	0.304	(0.636)	0.234	<0.001
X63	0.029	-0.014	-0.009	0.111	-0.176	(0.854)	0.049	<0.001
X64	-0.136	-0.087	0.301	-0.290	-0.029	(0.747)	0.047	<0.001
X65	-0.321	-0.110	0.395	0.142	-0.020	(0.823)	-0.105	<0.001
X66	-0.193	0.119	0.137	-0.073	-0.126	(0.861)	0.040	<0.001
X67	0.143	-0.040	-0.241	0.165	0.081	(0.847)	-0.194	<0.001
X68	0.028	-0.011	-0.062	0.152	0.104	(0.863)	-0.119	<0.001
Y1	0.112	-0.017	-0.123	0.098	0.065	-0.096	(0.854)	<0.001
Y2	0.153	-0.021	-0.078	-0.077	0.138	-0.085	(0.880)	<0.001
Y3	-0.036	-0.025	0.054	0.044	0.008	-0.034	(0.889)	<0.001
Y4	0.065	-0.033	0.098	-0.151	-0.076	0.158	(0.863)	<0.001
Y5	-0.041	0.066	0.000	0.115	-0.105	0.050	(0.919)	<0.001
Y6	-0.232	0.027	0.257	-0.115	-0.093	0.088	(0.879)	<0.001
Y7	0.052	0.002	-0.132	0.070	0.060	-0.058	(0.906)	<0.001
Y8	-0.064	-0.003	-0.070	0.007	0.007	-0.021	(0.923)	<0.001

Source: WarpPLS Output Data, 2025

Based on the results, almost all outer loading values were above 0.7, except for X51 (0.697) and X62 (0.636). The researchers decided to retain these indicators, meaning that nearly all indicators were kept for further analysis.

Composite Reliability and Average Variance Extracted (AVE)

Composite reliability is an internal consistency reliability metric that does not presuppose equal indicator loadings, in contrast to Cronbach's alpha. should be higher than 0.70 (0.60 to 0.70 is regarded as appropriate in exploratory study). In addition, Average Variance Extracted (AVE) represents the average amount of variance in the indicators that a latent variable or construct can explain. The higher the AVE, the better the latent variable or construct explains the variance of its indicators. An AVE greater than 0.5 indicates that the latent variable or construct captures more than 50% of the information from its indicators (Hair et al, 2014). The minimum acceptable AVE value is 0.5. The following are the AVE results obtained from WarpPLS:

Table 3. Latent Variable Coefficient

X1	X2	X3	X4	X5	X6	Y
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<i>Composite Reliability</i>	0.946	1.000	0.975	0.921	0.915	0.938	0.968
<i>Average Variances Extracted (AVE)</i>	0,714	1.000	0.862	0.625	0.607	0.654	0.791

Source: WarPLS Output Data, 2025

Based on the results above, it is known that all composite reliability values are > 0.7 . Furthermore, it is known that all AVE values are > 0.5 , which means that all latent variables have absorbed variance from their respective indicators $> 50\%$.

Discriminant Validity: Cross-Loading & Fornel-Larcker

Discriminant validity tests the extent to which a construct is truly distinct from other constructs. One approach to assessing discriminant validity is by comparing the square root of the average variance extracted (AVE) of a latent variable with the correlations between that latent variable and other latent variables. This approach is known as the Fornell-Larcker criterion. According to this criterion, the square root of a latent variable's AVE should be greater than its correlations with other latent variables (Hair et al, 2014). The following are the WarpPLS results for Fornell-Larcker discriminant validity:

Table 4. Correlation among latent variables with sq.rts. of AVEs

	X1	X2	X3	X4	X5	X6	Y
X1	(0.845)	0.170	0.843	0.458	0.368	0.168	0.602
X2	0.170	(1.000)	0.197	0.121	0.083	0.057	0.082
X3	0.843	0.197	(0.928)	0.415	0.385	0.157	0.459
X4	0.458	0.121	0.415	(0.791)	0.665	0.548	0.596
X5	0.368	0.083	0.385	0.665	(0.779)	0.573	0.513
X6	0.168	0.057	0.157	0.548	0.573	(0.809)	0.275
Y	0.602	0.082	0.459	0.596	0.513	0.275	(0.889)

Source: WarPLS Output Data, 2025

Based on the discriminant validity test (Fornell-Larcker) shown in the figure above, the square root of the AVE for each latent variable is greater than its correlations with other latent variables. This indicates that the designed instrument/questionnaire demonstrates good discriminant validity according to the Fornell-Larcker criterion.

Structural Model Testing (Structural Model / Inner Model)

Significance testing examines whether trust in government, trust in tax administration, nationalism, perceived likelihood of being caught, severity of punishment, and tax literacy have a significant effect on the tax morale of MSME actors in Bengkalis Island. The following presents the results of the significance test. Below are the WarpPLS results for the significance testing of the effects:

Table 5. Hypothesis Testing

	Path Coefficient	P-Value	Keterangan
X1	0.623	<0.001	H1 Accepted
X2	-0.026	0.396	H2 Rejected
X3	0.290	0.001	H3 Accepted
X4	0.309	<0.001	H4 Accepted
X5	0.256	0.004	H5 Accepted

X6	0.082	0.201	H6 Rejected
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Source: WarPLS Output Data, 2025

Based on Table 5 above, the results of this research provide a comprehensive overview of the factors influencing the tax morale of MSME actors in Bengkalis Island. Using Structural Equation Modeling (SEM) with the Partial Least Squares (SmartPLS) approach, the analysis found that four variables—trust in government, nationalism, perceived likelihood of being caught, and severity of punishment—have a positive and significant effect on tax morale. In contrast, the remaining two variables, trust in tax administration and tax literacy, do not have a significant effect on tax morale.

Global Model Fit Testing

The research model will be considered a good fit if the AFVIF is less than 5 and the p-values for APC and ARS are less than 0.05 or significant. As shown in Table 6, where the AVIF value is less than 5 and the GoF indicator value is >0.36 ss.

Table 6. Indikator Model Fit and P-Values

Average path coefficient (APC)=0.265, P=0.001
Average R-squared (ARS)=0.852, P<0.001
Average full collinearity VIF (AFVIF)=2.517, acceptable if ≤ 5 , ideally ≤ 3.3
Tenenhous GoF (GoF)=0.799, small ≥ 0.1 , medium ≥ 0.25 , large ≥ 0.36

Source: WarPLS Output Data, 2025

1. Based on the APC indicator, the APC value is 0.265, with a P-Value of 0.001, which is < 0.05 . This means that based on the APC indicator, the model fit test is met.
2. Based on the ARS indicator, the ARS value is 0.852, with a P-Value <0.001 , which is < 0.05 . This means that based on the ARS indicator, the model fit test is fit.
3. Based on the AFVIF indicator, the AFVIF value is $2.517 \leq 5$, which means the model fit test is fit.
4. Based on the GoF indicator, the GoF value is $0.799 \geq 0.36$, which means the model fit falls into the large (strong) group.

Discussion

Effect of Trust in Government on Tax Morale

The results show that X1 has a coefficient of 0.623 with a p-value <0.001 , indicating that trust in government has a positive and significant effect on tax morale (H1 accepted). This suggests that government legitimacy plays a crucial role in shaping the fiscal ethics of MSME actors. Trust grows when taxpayers perceive the government as transparent, accountable, and capable of using tax revenues efficiently for public purposes. According to Kirchler (2020) within the Slippery Slope Framework, tax compliance increases when taxpayers trust fiscal authorities. Ciziceno and Pizzuto (2022) also found that public trust in government in Europe positively relates to tax morale and voluntary compliance. In the context of Bengkalis Island, MSMEs are more willing to fulfill tax obligations when confident that tax revenues are responsibly managed. Similarly, Putri and Rahman (2023) found that positive perceptions of government performance and integrity increase voluntary tax participation. Thus, trust in government serves as a fundamental foundation for building strong tax morale at the grassroots level.

Effect of Trust in Tax Administration on Tax Morale

The results show that X2 has a coefficient of -0.026 with a p-value of 0.396, indicating that trust in tax administration does not significantly affect tax morale (H2 rejected). This may be due to limited interaction between MSME actors in Bengkalis and tax officers, primarily because of infrastructural constraints and limited access to tax services in the island region.

Additionally, public perception of the tax administration's performance is suboptimal in terms of both service speed and transparency. This differs from studies by Ciziceno and Pizzuto (2022) and Putri and Rahman (2023), which show a positive relationship between trust in tax authorities and tax morale. The difference highlights a contextual gap: administrative trust has a stronger impact in urban areas with well-established digital services but is less influential in rural or island areas with limited access. Therefore, efforts to improve tax morale in Bengkalis should focus on enhancing service quality and transparency in tax administration.

Effect of Nationalism on Tax Morale

The results indicate that X3 has a coefficient of 0.290 with a p-value of 0.001, meaning that nationalism has a positive and significant effect on tax morale (H3 accepted). This demonstrates that patriotism and collective awareness to contribute to national development serve as a moral motivation for MSME actors to fulfill tax obligations. This aligns with Social Identity Theory (Tajfel & Turner, 1986), which states that individuals with a strong social identity toward their group or country act in support of collective interests, including fiscal responsibilities. Castañeda-Rodríguez and Lisi (2024) reinforce this finding, showing that national identity positively relates to tax morale in various developing countries. Locally, MSMEs in Bengkalis, many of which are traditional businesses, exhibit strong solidarity toward regional development, making nationalism a significant driver of tax morale. This is consistent with Rahman et al. (2022), emphasizing that national values and social commitment play key roles in fostering voluntary tax awareness. Hence, tax morale is not only an economic rationality issue but also an expression of social and national loyalty.

Effect of Perceived Likelihood of Being Caught on Tax Morale

The analysis shows that X4 has a coefficient of 0.309 with a p-value <0.001 , indicating that the perceived likelihood of being caught has a positive and significant effect on tax morale (H4 accepted). This confirms that tax morale is also shaped through deterrence mechanisms, where individuals consider the risk and legal consequences of tax violations. This finding aligns with the Economic Deterrence Model by Allingham and Sandmo (1972), which states that tax compliance increases as the probability of detection and the severity of penalties rise. Kogler et al. (2020) found that effective supervision and control strengthen tax morale by fostering perceptions of fairness and a healthy fear of legal violations. Additionally, Alabede (2021) showed that the perception of law enforcement effectiveness significantly affects small business tax awareness in Nigeria. In Bengkalis, this indicates that increasing monitoring intensity and strictness of fiscal authorities can reinforce moral norms among taxpayers, particularly those previously less engaged in formal tax administration.

Effect of Punishment Severity on Tax Morale

The results show that X5 has a coefficient of 0.256 with a p-value of 0.004, indicating that punishment severity has a positive and significant effect on tax morale (H5 accepted). This demonstrates that firm and proportional sanctions can promote tax morale through deterrence effects and increased perceptions of fiscal justice. The finding is consistent with Yusof and Ling (2021) in Malaysia, who reported that strict penalties enhance moral awareness and tax compliance among MSMEs. Rahman et al. (2022) also stated that fairly applied punishment strengthens social norms regarding tax obligations and fosters moral responsibility. However, the research also shows that the effectiveness of sanctions is higher when supported by strong government legitimacy and transparent communication. In other words, MSME actors are more likely to accept penalties when they perceive the tax system as

fair and accountable, highlighting a synergistic relationship between trust and law enforcement in building tax morale.

Effect of Tax Literacy on Tax Morale

The results indicate that X6 has a coefficient of 0.082 with a p-value of 0.201, meaning that tax literacy does not have a significant effect on tax morale (H6 rejected). This suggests that cognitive understanding of tax rules does not necessarily foster moral awareness if it is not accompanied by the internalization of ethical values and social responsibility. This finding contrasts with Arifin and Nugroho (2023), who found that tax literacy significantly increased taxpayer moral behavior in urban areas. The difference may be due to low-quality tax socialization received by MSMEs in island regions and limited access to understandable tax information. As Rahman et al. (2022) point out, purely informative tax literacy is insufficient to shape moral behavior without participatory and contextual learning strategies. Therefore, more interactive educational approaches are needed to enhance both understanding and moral awareness of MSMEs regarding their tax obligations.

5. CONCLUSION

This research aims to analyze the internal and external factors influencing the tax morale of MSME actors in Bengkalis Island, using the Structural Equation Modeling (SEM-PLS) approach. The results indicate that four variables—trust in government, nationalism, perceived likelihood of being caught, and severity of punishment—have a positive and significant effect on tax morale. In contrast, trust in tax administration and tax literacy do not have a significant effect. These findings suggest that the formation of MSMEs' tax morale is more strongly determined by social and institutional external factors than by cognitive internal factors. Trust in government and a sense of nationalism emerge as primary moral drivers, while control aspects such as supervision and sanctions reinforce ethical commitment to tax obligations. Conversely, weak tax literacy and administrative trust highlight the need for improved services and enhanced tax education in island regions. Thus, this research emphasizes that improving tax morale cannot rely solely on law enforcement but requires building trust, strengthening national values, and providing equitable tax services. For future research, it is recommended to expand the research to other coastal regions, include mediating variables such as perceived fairness or social norms, and employ longitudinal data to provide a more comprehensive understanding of the dynamics of MSME tax morale in Indonesia.

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