EFFECT OF TAX KNOWLEDGE ON INDIVIDUAL TAXPAYERS COMPLIANCE

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Abstract: *The objective of the study is to analyze the impact of tax knowledge factors, including tax reporting knowledge, tax calculation knowledge, and tax payment knowledge, on personal tax compliance. Data were collected in Hai Phong City through 326 valid survey questionnaires, which were subjected to quantitative analysis using SPSS software and the OLS regression analysis method. The research results showed that all three factors related to tax knowledge significantly impact personal income tax compliance behavior. The study also provides implications for improving tax awareness among individuals, thereby enhancing personal income tax compliance among the people of Hai Phong in particular and the nation as a whole in the future.*

1. Introduction

Personal tax compliance is a fundamental component of modern fiscal systems, reflecting how well individuals adhere to tax laws and meet their tax obligations. Non-compliance, in the form of tax evasion or avoidance, can significantly erode government revenues and hinder public services. As economies become increasingly interconnected, the issue of personal tax compliance has gained prominence due to the rise of global labor mobility, complex tax structures, and the digitalization of financial transactions. Understanding the factors that influence individual tax compliance is essential for governments, tax authorities, and policymakers to design effective tax regimes and enforcement mechanisms. This paper explores the growing issue of personal tax compliance, the challenges it presents, and the broader implications of ensuring high levels of compliance for economic stability and equity.

The growing complexity of personal tax systems, coupled with increasing opportunities for individuals to exploit cross-border tax loopholes, has heightened the challenges surrounding tax compliance. Globalization has enabled individuals to hold assets and earn income in multiple jurisdictions, complicating the enforcement of national tax laws. Moreover, the rise of the gig economy and the digitalization of financial assets, such as cryptocurrencies, has further blurred the lines of tax accountability. As these challenges escalate, the need for adaptive and comprehensive personal tax compliance strategies becomes more urgent.

This study investigates the key factors that affect personal tax compliance, which is tax knowledge including Tax reporting knowledge, Tax calculation knowledge, Tax payment knowledge. By examining these factors, policymakers can design tax systems that encourage voluntary compliance, minimize revenue losses, and promote a sense of fairness and equity in the broader society.

In addition to the introduction presented above, the rest of the study is presented as follows: In the next part, the study conducts an overview of previous studies, then the study proceeds data collection and present research methods. Next, the study analyzes the results, discusses the results and draws general conclusions.

2. Literature review

According to Pangestu & Rusmana (2012) define tax compliance as the disciplined behavior of taxpayers in fulfilling both their rights and obligations in line with applicable tax laws and procedures. In general, tax compliance can be understood as adherence to all tax-related regulations. Pangestu & Rusmana (2012) identified two types of tax compliance: formal and material compliance. Formal compliance refers to a situation where taxpayers meet their tax obligations strictly

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according to the procedural requirements of the Tax Act. Material compliance, on the other hand, is characterized by taxpayers substantively fulfilling all tax obligations in line with the essence and intent of the Tax Law. They further explain that when taxpayers submit their tax returns (SPT) and pay the due tax on time, they meet the criteria for formal compliance. Conversely, material compliance is achieved when taxpayers complete their tax returns accurately, truthfully, and in accordance with the Tax Act. In their research on tax compliance related to future value-added tax (VAT) returns, Pangestu & Rusmana (2012) used instruments to assess both formal and material compliance, specifically focusing on the timely submission of VAT returns, timely payment of owed VAT, and on-time VAT payments.

Tax knowledge and the complexity of tax collection are recognized as key factors contributing to taxpayer non-compliance. Research by Saad (2013) in Malaysia revealed that respondents lacked sufficient technical knowledge about taxes and perceived the tax system as overly complex, both of which contributed to non-compliant behavior among taxpayers. Similarly, Palil (2010), indicated that improving taxpayers' understanding of tax laws could positively influence their attitudes toward compliance and improve their overall behavior in adhering to tax regulations.

Nasir (2010) conducted a study to investigate the impact of tax knowledge and the tax administration system on taxpayer compliance, focusing on land and building tax payers at KPP Pratama Jakarta Pasar Rebo. His findings indicated that both tax knowledge and the effectiveness of the tax administration system had a positive and significant influence on taxpayer compliance. Adiasa (2013) researched the effect of understanding tax regulations on compliance, using risk preferences as a moderating variable, with individual taxpayers in West Semarang as the sample. The results showed that comprehension of tax laws positively impacted compliance, while risk preferences did not moderate the relationship between tax understanding and compliance. Saad (2013) explored taxpayers' knowledge and their perceptions of the complexity of the income tax system, as well as reasons for non-compliance, finding that insufficient technical knowledge and the complexity of the tax system contributed to non-compliance. In a separate study, Palil (2010) examined individual

taxpayers in Malaysia, using variables such as knowledge of rights and obligations in tax reporting, understanding of taxable income, and awareness of tax allowances. The results demonstrated that these factors significantly influenced tax compliance.

Stone et al. (2023) examined the influence of advice shared within online tax communities on taxpayer decision-making. These communities, often linked to major tax preparation software, allowed taxpayers to ask specific questions and receive responses. Although the intention was to provide unbiased advice, the quality, content, and expertise of responses varied significantly. Utilizing expectancy violations theory (EVT), we focused on two key aspects of the advice provided: the expertise of the response provider and the concreteness of the language used. Our findings suggested that taxpayers reported more conservatively when advice from a recognized tax expert was conveyed using concrete language, while abstract language led to more aggressive reporting. Additionally, the perceived usefulness of the advice mediated this relationship.

3. Data and methodology

This study uses primary data collected in Hai Phong City in 2024. The study employed a convenient sampling method for individuals. According to Hair et al. (2006), an appropriately determined sample size requires at least five times the number of questions, corresponding to a minimum sample size of 90. In this study, 330 questionnaires were distributed, and 326 valid responses were received. Four invalid responses were excluded from the analysis.

Based on the previous studies, the estimated equation is shown as follows:

$$Y_t = \beta_0 + \beta_1 TR_t + \beta_2 TC_t + \beta_3 TP_t + \varepsilon_t$$

In which:

 is the individual tax compliance behavior; is the the Tax reporting knowledge; is the Tax calculation knowledge; is the Tax payment knowledge.

The study uses the SPSS software for analysis as well as uses OLS regression, and then uses this research results to evaluate factors of knowledge affecting individual tax compliance.

4. Results

4.1. Descriptive statistics

Table 1 shows that the research sample has 326 individual respondents, including 102 people under

30 years old, 126 people between 31-39 years old and 98 people over 40 years old, accounting for 31.3%, 38.7% and 30.0%, respectively.

Table 1. Range of respondents' age

	Respondents	Number	Percentage
	Under 30	102	31.3%
Age	31 – 39	126	38.7%
	Over 40	98	30.0%

Source: Authors' analysis

4.2. Cronbach's alpha analysis

Table 2. Reliability of scale

Variable	Number of items	Cronbach's alpha
TR	4	0.831
TC	4	0.840
TP	4	0.762
Y	6	0.882

Source: Authors' analysis (2023)

Table 2 shows that the selected scales are appropriate because they have Cronbach's alpha coefficient greater than 0.6 and are satisfactory, therefore these scales are suitable for EFA analysis.

4.3. EFA analysis

Table 3. KMO and Barlett test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.774
	Approx. Chi-Square	2881.331
Bartlett's Test of Sphericity	Df.	153
	Sig.	0.000

Source: Authors' analysis

According to KMO and Barlett's test, the KMO coefficient reaches 0.774 and is greater than 0.5, and at the same time, Bartlett's Test of Sphericity shows that Sig. = 0.000, so the choice is appropriate. In addition, Table 4 also indicates the rotated component matrix as below:

Table 4. Rotated component matrix

Items	1	2	3
TR2	0.896		
TR4	0.885		
TR3	0.861		
TR1	0.841		
TC3		0.900	
TC4		0.851	
TC2		0.817	
TC1		0.734	
TP3			0.894
TP1			0.811
TP2			0.740
TP4			0.562

Source: Authors' analysis

4.4. Correlation matrix

Table 5. Correlation matrix

Variable	Y	TR	TC	TP
Y	1.000			
TR	0.176	1.000		
TC	0.276	0.154	1.000	
TP	0.163	0.058	0.088	1.000

Source: Authors' analysis

Table 5 indicates that the highest correlation coefficient of 0.276 belongs to Y and TC and is still less than 0.8, so the possibility of multicollinearity is eliminated. Therefore, the selection of the variables is appropriate.

4.5. Regression results

Table 6. Regression results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	1.849	0.403		6.115	0.001
1	TR	0.123	0.050	0.130	2.451	0.015
	TC	0.228	0.050	0.245	4.589	0.000
	TP	0.132	0.052	0.134	2.538	0.012

Source: Authors' analysis

Table 6 results reveal:

The estimated coefficients of TR, TC, and TP are all positive and statistically significant, with the largest estimated coefficient being TC, followed by TP, and finally TR, as detailed below:

The estimation results confirm the positive impact of TC (Tax Calculation knowledge) on individual tax compliance behavior, and this impact is the strongest. Specifically, an increase of 1 unit in TC has the potential to improve individual tax compliance behavior by an average of 0.245 units. Tax calculation knowledge positively influences personal tax compliance by reducing errors and enhancing individuals' understanding of their financial obligations. With this knowledge, taxpayers can navigate the system more effectively, leading to greater accuracy in reporting and fostering a stronger sense of trust in the tax process. It also minimizes perceptions of complexity, encourages timely compliance, and helps individuals avoid penalties. By making informed decisions about deductions and credits, taxpayers are more likely to comply with regulations, ultimately fostering higher levels of compliance.

The estimation results also confirm the positive impact of TP (Tax Payment knowledge) on individual tax compliance behavior, and this impact is the second strongest. Specifically, an increase of 1 unit in TP has the potential to improve individual tax compliance behavior by an average of 0.134 units. Tax payment knowledge positively influences personal tax compliance by ensuring individuals understand when, how, and how much they need to pay, reducing the likelihood of missed or incorrect payments. This knowledge fosters a sense of responsibility, minimizes confusion about payment processes, and helps avoid penalties for

late or incorrect payments. Additionally, a clear understanding of payment methods and deadlines promotes timely compliance, contributing to higher levels of overall tax adherence and trust in the system.

Finally, the estimation results confirm the positive impact of TR (Tax Reporting knowledge) on individual tax compliance behavior, and this impact is the third strongest. Specifically, an increase of 1 unit in TR has the potential to improve individual tax compliance behavior by an average of 0.130 units. Tax reporting knowledge positively influences personal tax compliance by equipping individuals with the skills needed to accurately complete and submit their tax returns. This understanding reduces errors and omissions, minimizing the risk of audits and penalties. With a clear grasp of reporting requirements, taxpayers are more likely to fulfill their obligations on time, fostering a sense of accountability. Furthermore, knowledgeable taxpayers are better able to identify and claim eligible deductions and credits, enhancing their compliance and overall trust in the tax system

5. Conclusion and implications

Empirical results show that all three types of tax knowledge, including tax reporting knowledge, tax calculation knowledge, and tax payment knowledge, positively affect personal tax compliance. Some practical implications for enhancing tax calculation knowledge, tax payment knowledge, and tax reporting knowledge to improve personal tax compliance can be proposed as follows:

5.1. Tax Calculation Knowledge

Educational Workshops: Implement community-based workshops or online webinars focused on tax calculation techniques, helping taxpayers understand how to compute their tax liabilities accurately. This could include practical examples and case studies.

Interactive Tools: Develop and promote user-friendly online calculators and mobile apps that allow taxpayers to practice calculating their taxes. These tools can provide immediate feedback and guidance, reinforcing learning.

Targeted Information Campaigns: Launch campaigns that focus on key tax calculation concepts, disseminating simplified guides and visual aids through social media, tax agencies, and local community centers to increase awareness and understanding.

5.2. Tax Payment Knowledge

Clear Communication of Payment Processes: Tax authorities should create detailed yet straightforward guides that outline payment methods, deadlines, and consequences of late payments, ensuring that information is accessible and easy to understand.

Reminders and Alerts: Implement automated reminder systems via email or SMS to notify taxpayers of upcoming payment deadlines and provide clear instructions on how to make payments.

Incentives for Timely Payments: Introduce incentives, such as discounts or rewards, for taxpayers who consistently make timely payments, thereby encouraging compliance through positive reinforcement.

5.3. Tax Reporting Knowledge

Simplified Reporting Resources: Develop comprehensive, user-friendly resources that break down the reporting process, including step-by-step guides and FAQs addressing common concerns or misconceptions about tax reporting.

Tax Preparation Assistance: Offer free or low-cost tax preparation services, particularly for low-income individuals, to guide taxpayers through the reporting process and enhance their understanding of the requirements.

Feedback Mechanisms: Establish channels for taxpayers to ask questions and receive answers regarding reporting issues. This could involve online forums, hotlines, or community tax clinics, fostering a supportive environment for learning and compliance.

By implementing these empirical implications, tax authorities can enhance taxpayers' knowledge in these key areas, ultimately leading to improved compliance rates.

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