



## Can tax knowledge, trust in government and perceived tax fairness encourage tax compliance?

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<p><b>CORRESPONDING AUHTOR*:</b></p> <p><b>Dahniyar Daud</b> Makassar Bongaya College of Economics, South Sulawesi, Indonesia <b>*Email:</b> <a href="mailto:dahniyar.daud@stiem-bongaya.ac.id">dahniyar.daud@stiem-bongaya.ac.id</a></p> <p><b>Keywords:</b> Tax Compliance, Tax Knowledge, Trust in Government, Tax Fairness Small and Medium Enterprises (SMEs)</p> <p><b>DOI:</b> <a href="https://doi.org/10.30596/ijbe.v7i2.28902">https://doi.org/10.30596/ijbe.v7i2.28902</a></p>	<p><b>ABSTRACT</b></p> <p><b>Purpose</b> – This study examines whether tax knowledge, trust in government, and tax fairness influence tax compliance among small and medium enterprises (SMEs) the Makassar City area.</p> <p><b>Methodology</b> – Using a survey-based approach, we sampled 260 SMEs operating in Makassar City, Indonesia. Data were analyzed using Partial Least Squares (PLS) modeling techniques.</p> <p><b>Findings</b> – Our empirical results indicate that tax knowledge does not significantly contribute to tax compliance, whereas tax fairness shows a significant effect. In the model, tax fairness significantly mediates the relationship between tax knowledge and tax compliance. Furthermore, trust in government significantly influences both tax compliance and tax fairness. Additionally, tax fairness plays a significant mediating role in the relationship between trust in government and tax compliance.</p> <p><b>Originality/Novelty</b> – In light of this, our study is the first to examine tax fairness as a mediating variable in the relationship between tax knowledge and trust in government, and tax compliance, specifically within the Indonesian context.</p> <p><b>Implications</b> – Our findings provide important theoretical evidence that when SME actors perceive transparency from government officials in tax-related matters, it fosters both awareness and a genuine intention to pay taxes. This trust contributes to the perception of tax fairness, ultimately leading to improved tax compliance.</p>
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## INTRODUCTION

Tax compliance serves as a symbol of awareness, reflecting the effectiveness of mobilizing adequate and sustainable tax revenues. However, the underlying factors influencing tax compliance particularly in developing countries such as Indonesia and Ghana remain insufficiently documented. Tax revenue mobilization, which refers to the process of collecting taxes from individuals, businesses, and other entities to finance public expenditure, has yet to function effectively in many of these nations (Appiah et al., 2024). In fact, the ability of governments to mobilize sufficient tax revenues is crucial, as it directly contributes to curbing budget deficits and controlling escalating public debt. Moreover, strong tax compliance not only supports economic development but also helps fund essential infrastructure that underpins business growth and broader societal progress (Zhao et al., 2025). The capacity to generate adequate tax revenues empowers sovereign states to enhance the welfare and security of their citizens (Ma et al., 2024). Unfortunately, despite the critical role of tax revenues in driving socio-economic development, many developing countries still struggle with inadequate tax collections, which undermines their ability to fund national budgets and invest in vital infrastructure needed for accelerated development (Okunogbe & Santoro, 2023; Umar & Masud, 2020).

The inability to effectively mobilize tax revenue is largely attributed to issues of tax compliance. This has reignited ongoing debates about the most effective approaches to comprehensively address tax compliance challenges, particularly in developing countries like Indonesia and Ghana. Existing literature acknowledges that small and medium-sized enterprises (SMEs) in Indonesia are expected to play a significant role in contributing to the national economy through tax revenues. In fact, in 2024, the trend of tax compliance among SMEs increased nationally to 68% compared to the previous reporting levels (2019-2023). Unfortunately, this expectation has not been fully realized, as non-compliance among SMEs remains a pressing and persistent issue (Inasius, 2019; Inasius et al., 2020; Satyadini & Rosid, 2024). A similar trend has been observed in Ghana (Appiah et al., 2024; Carsamer & Abbam, 2023). Although government efforts to increase tax revenues have yielded some positive results, tax compliance within the SME sector remains substantially lower compared to other Asian countries, such as Malaysia and Singapore (Inasius, 2019). This highlights the urgent need to thoroughly examine the factors underlying non-compliance among SMEs, in order to gain critical insights that can inform more effective government policies aimed at mobilizing tax revenue.

This study distinguishes itself from previous research in four key ways. First, while numerous studies have examined the determinants of tax compliance (Adem et al., (2024); Darmayasa et al., (2024); Musah et al., (2026); Twesige et al., (2024); von Schiller, (2024)), most tend to overlook the interplay between tax knowledge and trust in government as critical predictors of tax compliance. Second, several prior studies for example, Alm, (2019); Bobek et al., (2025); Castañeda-Rodríguez, (2025), have not ventured to explore tax fairness as a mediating variable in the relationship with tax compliance. To our knowledge, only one study has considered the role of tax fairness in influencing SME tax compliance in Ghana, as confirmed by (Appiah et al., 2024). In light of this, our study is the first to examine tax fairness as a mediating variable in the relationship between tax knowledge and trust in government, and tax compliance, specifically within the Indonesian context. The conceptualization of this mediation is

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inspired by one of Adam Smith's canons of taxation the principle of tax fairness. Third, this study develops variable indicators that differ from previous research by grounding them in theory, logic, and the practical realities of the research context. It also employs the Slippery Slope Theory (SST) as an analytical framework to examine the relationships among variables in depth. Finally, this study contributes to practice by providing empirical evidence to support the design of tax systems aligned with one of the most fundamental canons of taxation tax fairness. Moreover, the findings offer a foundation for various stakeholders to advocate for behavioral change among government officials and tax authorities, with the aim of fostering greater public trust in their ability to manage state resources responsibly. Holding governments accountable based on these findings can promote transparency, strengthen trust, and ultimately reduce tax non-compliance among SMEs.

### **Hypothesis Development**

Previous studies have widely employed the Slippery Slope Theory (SST) as a theoretical foundation to gain insights into individual tax compliance behavior (Adem et al., 2024; Appiah et al., 2024; Darmayasa et al., 2024). SST is built upon two key assumptions regarding tax compliance. The first dimension emphasizes reducing tax evasion and increasing compliance through the enforcement of penalties and audits. The second approach, by contrast, focuses on fostering and strengthening the relationship between taxpayers and tax authorities leading to voluntary compliance (Munjeyi & Schutte, 2025). Following prior studies Adem et al., (2024); Darmayasa et al., (2024);, this research adopts SST to analyze perceptions of tax compliance, with particular attention to the relationship between tax knowledge and trust in government, mediated by tax fairness, within the Indonesian context. SST is structured around two core dimensions: trust and power (Lukovszki et al., 2025). On one side, trust represents taxpayers' awareness and goodwill in fulfilling their tax obligations leading to voluntary compliance. On the other, power reflects the authority's capacity to enforce compliance through coercive means (Darmayasa et al., 2024). Empirically, the most favorable condition arises when both trust and power are high, resulting in taxpayers who are more likely to comply voluntarily because they feel respected and perceive the tax system as fair (Adem et al., 2024).

Voluntary tax compliance refers to the willingness of taxpayers to fulfill their tax obligations freely, without external pressure. According to (Mebratu, 2024), voluntary tax compliance is defined as the readiness of taxpayers to act in accordance with the spirit and letter of tax laws and regulations. Similarly, Satyadini & Rosid, (2024) conceptualize voluntary tax compliance as the willingness of taxpayers to file their tax returns accurately and on time in accordance with applicable tax regulations, without any form of coercion. More recently, Appiah et al., (2024) argued that tax compliance reflects an awareness of tax obligations, sufficient understanding of tax processes, the skills required to file taxes, and an intrinsic motivation to comply. Based on these perspectives, we conceptualize voluntary tax compliance as the tendency of individuals and business entities such as SMEs to accurately and timely file their tax returns on a voluntary basis, without being compelled to do so.



According to the SST, the extent to which individuals or SME actors are willing to voluntarily comply with tax laws and faithfully file their tax returns largely depends on their perceptions of the tax authorities particularly in terms of fairness, trust, and knowledge of the tax system. One of the key factors identified as a significant determinant of voluntary tax compliance is tax knowledge, although it has not yet become a central pillar in fostering compliance. This has been validated by Appiah et al., (2024); Musimenta, (2020); Nyantakyi et al., (2024), who found that tax knowledge has a significant influence on compliance decisions. Conversely, when tax knowledge is inadequate or poorly understood, tax compliance tends to decline (Adem et al., 2024). As characterized by Lee et al., (2021), tax compliance involves fulfilling tax obligations without coercion, accurately reporting income, submitting tax returns in a timely manner, fully meeting substantive tax requirements, and reporting taxes in a realistic and honest way.

The proposition by Alm & Kasper, (2023), found no correlation between SME owners' level of tax knowledge and their voluntary tax compliance. Furthermore, they argued that tax knowledge could, in some cases, lead to tax avoidance and non-compliance, as entrepreneurs who are well-versed in tax rules and policies may exploit loopholes to minimize their tax liabilities. Despite these differing perspectives on the influence of tax knowledge on compliance, the majority of existing studies have consistently found a significant relationship between tax knowledge and tax compliance behavior. Therefore, based on the above discussion, we propose the following hypothesis:  
*H1: Tax knowledge among SME actors has a positive effect on their level of tax compliance.*

Another important determinant of voluntary tax compliance is the perceived fairness of the tax system (Munjeyi & Schutte, 2025). This claim is supported by Inasius, (2019), who argues that taxpayers' perceptions of fairness and efficiency within the tax system are critical in shaping their willingness to comply. Similarly, Guerra & Harrington, (2018) explain that perceived tax fairness plays a central role in determining the extent to which taxpayers comply with tax laws. For instance, if taxpayers view the existing tax rules and systems as unfair, they are more likely to engage in tax avoidance. In this regard, tax knowledge can enhance tax fairness, which is understood as a reflection of one's trust in the tax system and the belief that the laws are just, tax burdens are fairly distributed, equality among taxpayers is upheld, and social justice is promoted (Farrar et al., 2020; Manyanga et al., 2025; Solano-Garcia, 2017). Moreover, tax fairness has been shown to significantly contribute to taxpayers' compliance decisions (Appiah et al., 2024; Inasius, 2019; Solano-Garcia, 2017). As such, tax knowledge serves as the crown of awareness that illuminates tax consciousness among SME actors (Adem et al., 2024; Jassem et al., 2022; Povitkina et al., 2021). Based on the discussion above, we propose the following hypothesis:

*H2: Tax knowledge among SME actors has a positive effect on tax fairness.*  
*H3: Tax knowledge among SME actors has a positive effect on tax compliance levels mediation tax fairness.*



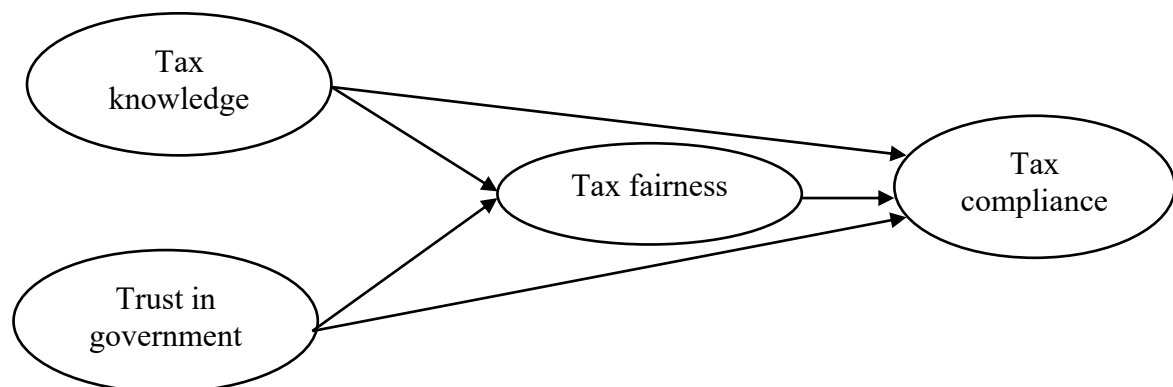
Taxpayers' perceptions play a crucial role in determining their tax compliance, as these perceptions influence how individuals view the world and shape their attitudes toward societal demands. Consequently, several studies Faizal et al., (2017); Starke et al., (2020) have documented that taxpayers' understanding of the tax system and their perceptions of it significantly affect their compliance behavior. According to Nicholls et al., (2024), individuals use simple decision rules to determine whether to support the government, and when they believe that the government is trustworthy and acts in the best interest of its people, they are more likely to support government actions and initiatives. Research in the field of trust and its influence on tax compliance has observed that when there is mutual trust between taxpayers and tax authorities, a strong symbiotic relationship develops, which greatly enhances voluntary tax compliance. However, if there is a lack of trust between taxpayers and tax authorities, taxpayers' willingness to support the tax authority and by extension, the government is significantly undermined (Appiah et al., 2024).

Several previous studies have examined the impact of trust in government on tax compliance, consistently reporting significant results (e.g., Appiah et al., 2024; Baah-Pepurah et al., 2024; Inasius et al., 2020). Trust in government serves as the foundation of governmental legitimacy, which is reflected in active tax participation, SMEs' willingness to cooperate with the government, SMEs' belief that government institutions act in their best interest, and SMEs' trust that government officials are transparent in tax matters (Ma et al., 2024). Consequently, trust in government also influences perceptions of tax fairness (Baah-Pepurah et al., 2024; Povitkina et al., 2021). Moreover, this study observes the role of tax fairness as a mediator in the relationship between trust in government and tax compliance, with significant findings. Trust in government constitutes a noble foundation that nurtures SMEs' loyalty to the fiscal system. When SMEs trust the government and tax authorities, the seeds of fairness flourish, leading to increased voluntary tax compliance (Jassem et al., 2022). Based on the discussion above, we formulate the following hypothesis:

*H4: Trust in government has a positive effect on tax compliance.*

*H5: Trust in government has a positive effect on tax fairness.*

*H6: Trust in government has a positive effect on tax compliance mediation tax fairness.*



**Figure 1.** Conceptual Framework



**METHOD**

**Research Design;** This study employs quantitative techniques to examine the causal relationship between tax knowledge, trust in the government, tax fairness, and voluntary tax compliance among SMEs in Makassar City. The study utilizes a sample frame of 809 SMEs obtained from the Makassar City Office of Cooperatives and SMEs, a sample size of 260 respondents was selected. A conventional sampling technique was applied in this study. The respondents consisted of SME owners or managers who were purposively selected to participate in the research.

**Data and Variable Measurement;** A survey approach was employed to collect data from SME owners/managers in Makassar City. Structured questionnaires were distributed to the selected SME managers. A total of 260 questionnaires were distributed, of which 249 were fully completed, resulting in a response rate of 95.8%. To encourage participant involvement, the research objectives were clearly explained, and the confidentiality of the information requested was assured. The questionnaire consisted of statements designed to measure each variable, including voluntary tax compliance, perceptions of trust in government, tax knowledge, and perceptions of tax fairness. These variables were measured based on the perceptions of SME managers. In addition to demographic data, all other data were collected using items measured on a five-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree. Each construct was measured using multiple items. Each variable was measured using indicators accompanied by questionnaire items. Each indicator was provided with three items to ensure validity and reliability, as presented in Table 1.

**Table 1.** Measurement of variables

Variable	Indicators	References
Tax Compliance (TC)	1) Fulfilling tax obligations without coercion	(Lee et al., 2021).
	2) Accurately reporting income	
	3) Submitting tax returns on time	
	4) Substantively complying with all material tax provisions	
	5) Reporting taxes realistically	
Tax Knowledge (TK)	1) Awareness of tax compliance	(Appiah et al., 2024).
	2) Adequate understanding of the tax process	
	3) Possessing tax filing skills	
	4) A positive attitude toward tax compliance	
Trust in Government (TG)	1) Active participation in tax payment	(Ma et al., 2024).
	2) SMEs' willingness to cooperate with the government	
	3) Belief that government institutions act in the best interest of SMEs	
	4) Trust that government officials are transparent in tax matters	
Tax Fairness (TF)	1) Trust in the fairness of the tax system and its laws	(Appiah et al., 2024).
	2) The equitable distribution of the tax burden among taxpayers	
	3) Equality among taxpayers	
	4) Social justice in taxation	

**Data Analysis;** In the Partial Least Squares (PLS) method, the reliability of each item was evaluated based on the loading factor value, which indicates the extent to which an indicator represents the intended construct. Subsequently, the construct's overall reliability



was assessed using two main measures: composite reliability (CR) and Cronbach’s alpha, acceptable CR value ranges from 0.60 to 0.70, while Cronbach’s alpha should reach a minimum value of 0.70. If both indicators meet these minimum thresholds, the construct is deemed to have good internal consistency. The next step involves testing construct validity, which is divided into two types: convergent validity and discriminant validity. Convergent validity is assessed by examining the Average Variance Extracted (AVE) value. A construct is considered to have convergent validity if its AVE value reaches at least 0.50.

**RESULTS AND DISCUSSION**

The demographic profile of respondents participating in this study is presented in Table 1. Of the 260 valid responses, 64.7% were female respondents and 35.3% were male respondents. The productive age group was dominated by respondents aged 18–35 years, accounting for 39.3% of the sample. Most SMEs owners had a high school education level (78.5%), while work experience in this sector was predominantly between 6 and 10 years (64.6%), as detailed in Table 2.

**Table 2.** Summary of sociodemographic characteristics

Variable	Value Label	Freq. (%) Total
Gender:	Female	168 (64.7)
	Male	92 (35.3)
Age	18–35 years	102 (39.3)
	36–45 years	98 (37.7)
	46–60 years	60 (23.0)
Education	Junior High School	44 (16.9)
	High School	204 (78.5)
	Diploma	4 (1.5)
	Bachelor's Degree	8 (3.1)
Work Experience	1-5 years	80 (30.8)
	6-10 years	168 (64.6)
	11->15 years	12 (4.6)

Table 3 shows that all factor loadings for each item exceed the threshold of 0.50. This indicates that each item adequately represents the construct being measured, thereby meeting the criteria for convergent validity. Furthermore, the Cronbach’s Alpha and Composite Reliability (CR) values for all constructs also exceeded the minimum value of 0.70. Additionally, the Average Variance Extracted (AVE) values for each construct are above 0.50. This shows that more than half of the variance in the indicators can be explained by the constructs being measured, further strengthening the research instrument's convergent validity. Finally, the Variance Inflation Factor (VIF) calculations for all indicators show values below 5, indicating no signs of multicollinearity among the variables. Therefore, the relationships among the model's constructs can be analyzed and interpreted accurately without interference from collinearity.

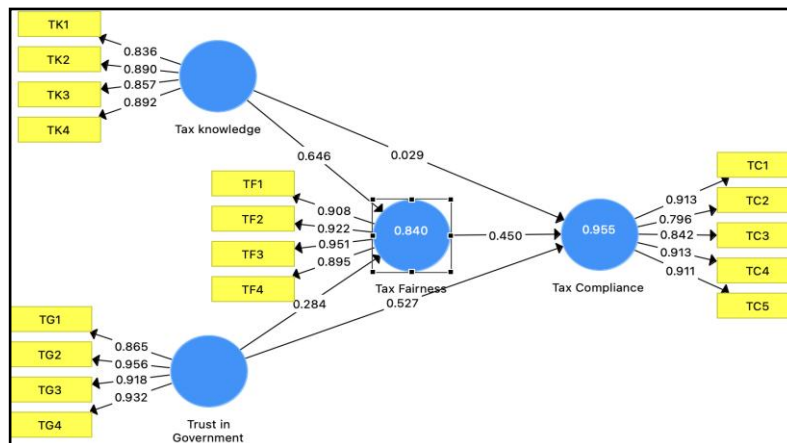


**Table 3.** Measurement model results

Construct	Code	Loadings	Cronbach's $\alpha$	Rho A	CR	AVE	VIF
Tax Compliance (TC)	TC.1	0.913	0.924	0.920	0.945	0.768	3.866
	TC.2	0.796					
	TC.3	0.842					
	TC.4	0.913					
	TC.5	0.911					
Tax Knowledge (TK)	TK.1	0.836	0.893	0.908	0.925	0.765	3.325
	TK.2	0.890					
	TK.3	0.857					
	TK.4	0.892					
Trust in Government (TG)	TG.1	0.865	0.928	0.940	0.958	0.843	2.449
	TG.2	0.956					
	TG.3	0.918					
	TG.4	0.932					
Tax Fairness (TF)	TF.1	0.908	0.939	0.940	0.958	0.845	2.529
	TF.2	0.922					
	TF.3	0.951					
	TF.4	0.895					

Notes: Overall, all factor loading values were above 0.70.

Figure 2 below provides evidence of the validity of the factor loadings for each indicator of each variable. Overall, all factor loadings are above 0.70. This is because outer loading represents the correlation between each measurement item and its corresponding variable. This measure indicates how well an item reflects or represents the construct being measured.



**Figure 2.** Factor loading result model

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Discriminant validity refers to the extent to which a construct is clearly distinguishable from other constructs and demonstrates that each construct has unique characteristics. In other words, measurement instruments should not exhibit excessively high correlations across constructs. In this study, discriminant validity was tested using two approaches: the Fornell-Larcker criterion and the Heterotrait–Monotrait ratio (HTMT). Based on the results presented in Table 3, the square root of the Average Variance Extracted (AVE) for each construct is greater than the correlation values with other constructs, which asserts that each construct has adequate discriminant validity. Therefore, it can be concluded that the constructs in this model successfully represent distinct concepts, without overlapping meanings or measurements among the latent variables.

**Table 4.** Comparative validity metrics for constructs Fornell-Larcker criterion.

	<b>Tax Compliance</b>	<b>Tax Knowledge</b>	<b>Trust in Government</b>	<b>Tax Fairness</b>
Tax Compliance	0.976			
Tax Knowledge	0.905	0.969		
Trust in Government	0.888	0.835	0.918	
Tax Fairness	0.809	0.785	0.773	0.919

This study also utilized the Heterotrait–Monotrait Ratio (HTMT) method as an additional test to assess discriminant validity. Acceptable HTMT values are those below the threshold of 0.85. Based on the analysis results presented in Table 5, all HTMT values between constructs in this study were recorded below this threshold. These findings confirm that discriminant validity has been adequately met. From a statistical perspective, this further reinforces the confidence that each construct in the model possesses unique characteristics, can be clearly distinguished, and does not exhibit significant overlap with other constructs tested within the research model framework.

**Table 5.** Comparative validity metrics for constructs HTMT criterion.

	<b>Tax Compliance</b>	<b>Tax Knowledge</b>	<b>Trust in Government</b>	<b>Tax Fairness</b>
Tax Compliance				
Tax Knowledge	0.654			
Trust in Government	0.449	0.655		
Tax Fairness	0.397	0.404	0.411	

Discriminant validity is commonly evaluated using the Fornell–Larcker criterion and the HTMT. The Fornell–Larcker criterion is used to assess discriminant validity by comparing the AVE with the correlations between constructs. Meanwhile, HTMT is used to assess construct similarity and is currently considered a more reliable method for assessing discriminant validity. In modern PLS-SEM research, it is recommended to report both methods; however, HTMT is often regarded as stronger evidence in evaluating discriminant validity.



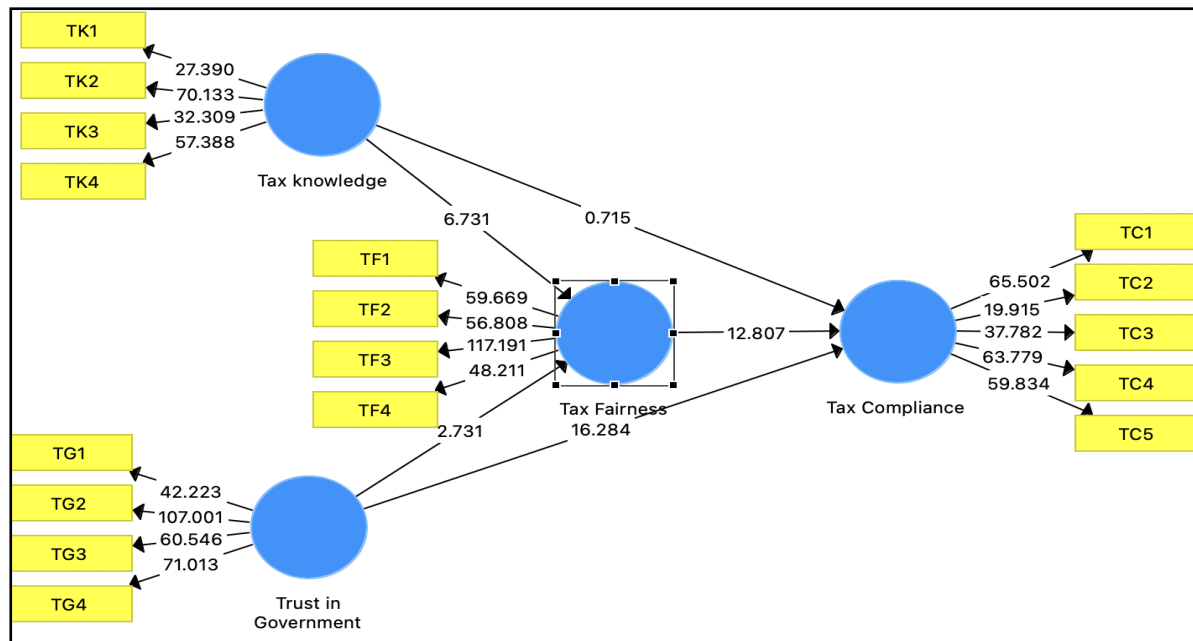
**Hypothesis Testing Results**

The level of significance was set at  $p \leq 0.05$ , corresponding to a 95% confidence level ( $\alpha = 5\%$ ). This threshold serves as the benchmark for determining whether the relationships between variables in the model are statistically significant. Additionally, hypothesis testing was conducted using the Student's *t*-test, with a cutoff of 1.96. A hypothesis is considered statistically significant if it meets at least one of the following criteria: the *p*-value is less than 0.05, or the *t*-statistic exceeds 1.96. The full results of these tests, including the *p*-values and *t*-values for each inter-variable relationship, are presented in detail in Table 6 and Figure 3 as supporting data for the analysis.

**Tabel 6.** Summary of results direct path analysis.

Hypotheses	Beta	Mean	SD	t-value	p-value	R Square	R Square Adjusted	Result
Tax Knowledge → Tax Compliance	0.029	0.033	0.042	0.702	0.483	0.480	0.439	Not Supported
Tax Knowledge → Tax Fairness	0.646	0.659	0.093	6.947	0.000			Supported
Tax Fairness → Tax Compliance	0.450	0.448	0.034	13.105	0.000			Supported
Tax Knowledge → Tax Fairness → Tax Compliance	0.291	0.294	0.046	6.366	0.000			Supported
Trust in Government → Tax Compliance	0.527	0.526	0.033	16.178	0.000	0.455	0.455	Supported
Trust in Government → Tax Fairness	0.824	0.271	0.101	2.822	0.000			Supported
Trust in Government → Tax Fairness → Tax Compliance	0.128	0.121	0.047	2.746	0.006			Supported

Table 6 and Figure 3 show the relationships between variables. Only one relationship is found to be insignificant, namely the relationship between Tax Knowledge and Tax Compliance, as the *t*-statistic value (0.702) is lower than the student's *t*-test critical value (1.96), or the *p*-value is above 0.05. Meanwhile, the other relationships are significant.



*Figure 3. Model direct and indirect relationship results*

Specifically, Figure 3 presents the research model results, including the coefficient values and levels of significance. Meanwhile, Figure 2 presents only the factor loadings for each variable.

**Mediation Effect**

To evaluate the extent to which the influence of independent variables on the dependent variable is mediated by an intervening (mediator) variable, this study employed the Variance Accounted For (VAF) approach. VAF is used to assess the strength of mediation within a causal relationship between variables. If the indirect effect is statistically significant, the next step is to determine the mediation effect size using the VAF. (a) VAF < 0.20 indicates no mediation; (b) VAF between 0.20 and 0.80 suggests partial mediation; and (c) VAF > 0.80 indicates full mediation. As shown in Table 5, the analysis reveals that the variable tax fairness (TF) continues to mediate the relationship between tax knowledge (TK) and tax compliance (TC). This is evidenced by a beta coefficient of 0.291 and a VAF of 0.20-0.80, indicating partial mediation. Furthermore, the analysis shows that tax fairness (TF) also maintains a significant role in the relationship between trust in government (TG) and tax compliance (TC). However, with a beta coefficient of 0.128 and a VAF value less than 0.20, the mediation is deemed statistically insignificant, indicating no mediation in this case.

R<sup>2</sup> values can be categorized as small (0.02), medium (0.15), and large (0.35). In this context, the model's predictive capability is assessed using the R<sup>2</sup> value, which indicates the proportion of variance in the dependent variable explained by the independent variables. Based on the data in Table 4, the first model measuring Tax Compliance shows an R<sup>2</sup> value of 0.480 (48.0%) and an adjusted R<sup>2</sup> of 0.439 (43.9%). These findings indicate that tax knowledge and trust in government substantially contribute to explaining the



variance in Tax Compliance. Meanwhile, the second model analyzing the construct Tax Fairness yielded an  $R^2$  value of 0.455 (45.5%) and an adjusted  $R^2$  of 0.455 (45.5%). These values suggest that tax knowledge and trust in government significantly influence Tax Fairness. Overall, both models in this study demonstrate strong predictive capability, as their  $R^2$  values exceed the large category threshold according to Cohen's classification. Therefore, the models are considered sufficiently robust in explaining the relationships among latent variables within the theoretical framework applied.

## **Discussion**

### **The effect of SMEs' tax knowledge on the level of tax compliance**

The findings indicate that tax knowledge does not have a significant effect on compliance decisions. In other words, it has not yet become a primary driver of tax compliance among SME actors, as reflected in their awareness of tax obligations, adequate understanding of tax procedures, ability to file taxes, and positive attitudes toward compliance (Appiah et al., 2024). This may be because compliance is shaped not only by cognitive factors but also by behavioral, structural, and contextual influences. As a result, tax knowledge alone has not emerged as a central pillar in promoting compliance among SMEs. Therefore, tax knowledge needs to be reinforced by system simplification, increased trust, appropriate incentives, and consistent law enforcement in order to function as a key driver of SME tax compliance (Lutfi et al., 2023). Several underlying factors explain why knowledge alone is insufficient to change taxpayer behavior, particularly among SMEs, supporting the view that tax knowledge has yet to play a dominant role in encouraging compliance (Harinurdin et al., 2024). Accordingly, it should be complemented by other elements such as user-friendly systems, stable economic conditions, stronger trust, and consistent enforcement, so that it can effectively serve as a cornerstone in improving tax compliance.

If tax knowledge has not yet become a primary pillar in driving tax compliance, the consequences extend beyond SMEs to the broader tax system and the economy as a whole. Overall, this condition suggests that without support from other factors, such as a simplified system, public trust, and consistent law enforcement tax knowledge alone is insufficient to foster strong and sustainable compliance. In fact, it carries wide-ranging implications, affecting policy formulation, administrative practices, and strategies for SME development. Therefore, the key implication is the need to shift from a "knowledge-based compliance" approach toward a more holistic and integrated framework ((Trawule et al., 2022).

These findings are consistent with the propositions of Alm & Kasper, (2023); Schoeman, (2025); Trawule et al., (2022), but contradict the conclusions of Appiah et al., (2024); Musimenta, (2020); Nyantakyi et al., (2024), which suggest that tax knowledge has a significant influence on compliance decisions. Moreover, Adem et al., (2024) argues that a high level of tax knowledge may, in some cases, even reduce the likelihood of compliance. Tax compliance itself is characterized by fulfilling tax obligations voluntarily, accurately reporting income, submitting tax returns on time, substantively meeting all material tax requirements, and reporting taxes in a realistic manner (Lee et al., 2021).



### **The effect of SMEs' tax knowledge on tax fairness**

Although tax knowledge does not make a significant contribution to compliance decisions, it does have a meaningful effect on perceptions of tax fairness. This suggests that tax knowledge can enhance perceptions of fairness, understood as a reflection of trust in the tax system and its justice, how the system distributes tax burdens equitably among taxpayers, ensures equal treatment, and promotes social fairness. Although tax knowledge does not make a significant contribution to compliance decisions, it does have a meaningful effect on perceptions of tax fairness. This suggests that tax knowledge can enhance perceptions of fairness, understood as a reflection of trust in the tax system and its justice, how the system distributes tax burdens equitably among taxpayers, ensures equal treatment, and promotes social fairness (Farrar et al., 2020; Manyanga et al., 2025; Solano-Garcia, 2017).

In practice, within the SME sector, tax knowledge can make a meaningful contribution to perceptions of tax fairness because it shapes how taxpayers understand, evaluate, and interpret the tax system in a more rational and proportionate way. Tax knowledge functions not only as a technical tool but also as a cognitive factor that influences perceptions of fairness. The higher the level of knowledge, the more likely taxpayers are to view the tax system as fair and acceptable. Moreover, the effect of tax knowledge on perceived tax fairness operates through several cognitive and psychological mechanisms that shape how taxpayers assess the system. In this sense, its influence arises because knowledge reshapes patterns of thinking, reduces uncertainty, and strengthens trust in the tax system.

Overall, the primary impact is the development of a tax system that is more effective, sustainable, and driven by voluntary awareness rather than mere coercion (Povitkina et al., 2021). Therefore, the influence of tax knowledge on perceptions of tax fairness can be observed across several key dimensions, particularly in policy, administration, and strategies to enhance tax compliance. This highlights the need for a more holistic approach to taxation, integrating education, transparency, and fairness in the system to foster sustainable tax compliance. The findings of this study are consistent with (Farrar et al., 2020; Manyanga et al., 2025; Solano-Garcia, 2017; Zhao et al., 2025a). However, they diverge from the conclusions of Bobek et al., (2025); Castañeda, (2024); Povitkina et al., (2021), which argue that tax knowledge can significantly influence perceptions of tax fairness only when it is accompanied by awareness and a clear understanding of the cognitive and psychological mechanisms through which SME taxpayers evaluate the tax system as a whole; without these, such perceptions may be merely illusory. Thus, this study extends the applicability of prior research findings.

### **The effect of SMEs' tax fairness on tax compliance**

In addition, tax fairness significantly influences compliance decisions. This implies that the stronger the perception of tax fairness among SME actors, the higher the level of tax compliance. This occurs because perceptions of fairness serve as a key psychological factor shaping taxpayers' attitudes and motivation to fulfill their obligations. Tax fairness operates simultaneously at emotional, cognitive, and normative levels, which together reinforce tax compliance decisions in a more robust and sustainable way (Appiah et al., 2024; Inasius, 2019; Solano-Garcia, 2017).



Tax fairness operates through a combination of perceived justice, trust, social norms, and cognitive evaluation, which collectively shape tax compliance decisions, as reflected in taxpayer behavior and the overall performance of the tax system. Furthermore, this dynamic contributes to the development of a tax system that is more effective, trusted, and sustainable, as it is supported by compliance driven by awareness rather than mere coercion (Vincent et al., 2023).

The implications of tax fairness for tax compliance decisions can be observed from the perspectives of policy, tax administration, and the development of taxpayer behavior. Accordingly, there is a need to transform the taxation approach from a purely rule-based one to one grounded in fairness, trust, and a long-term relationship between the state and taxpayers. The findings of this study are consistent with (Appiah et al., 2024; Eriksson & Andersson-skog, 2025; Inasius, 2019; Solano-Garcia, 2017). However, in contrast to previous literature, some studies argue that the impact of tax fairness becomes meaningful only when SME actors operate simultaneously at emotional, cognitive, and normative levels driven by genuine awareness. Without these components, tax fairness does not significantly contribute to tax compliance (Jassem et al., 2022; Nathan, 2026; Vincent et al., 2023). Thus, this study extends the applicability of previous research findings.

### **The effect of SMEs' tax knowledge on the level of tax compliance, mediated by tax fairness**

We further observe that tax knowledge represents a “crown of knowledge” that illuminates tax awareness among SME actors. With a deep understanding of regulations, tax rights and obligations, as well as reporting and payment procedures, SMEs demonstrate that tax compliance behavior is not shaped solely by knowledge. This is where tax fairness emerges as a “golden bridge” linking knowledge and compliance among SME actors. Knowledge first shapes taxpayers' perceptions of the tax system, and at this point tax fairness functions as a psychological filter. Tax fairness acts as a logical and psychological connector that transforms tax knowledge from merely understanding rules into acceptance and willingness to comply with them (Adem et al., 2024; Jassem et al., 2022; Povitkina et al., 2021). In addition, the impact of tax fairness arises from several psychological and behavioral mechanisms that link these elements in a gradual and interconnected process (Nathan, 2026).

As an important note, tax fairness is shaped by tax knowledge, which then serves as a psychological mechanism that transforms understanding into attitudes and, ultimately, into compliance decisions. This is particularly reflected in the quality and stability of compliance behavior itself. The end result is a tax compliance system that is more effective, sustainable, and trust-based, as knowledge does not operate in isolation but is reinforced by perceptions of fairness. The role of tax fairness as a “golden bridge” among SME actors underscores that strategies to improve compliance cannot be singular; they must be integrated. Therefore, there is a need for synergy among tax literacy, fair system design, and enhanced trust to achieve sustainable tax compliance among SMEs.

Our findings have theoretical implications, suggesting that when SME actors possess tax knowledge, it fosters awareness and goodwill toward tax payment, driven by trust and perceptions of tax fairness, ultimately leading to tax compliance. This is consistent with the Social Shaping Theory (SST) construct (Darmayasa et al., 2024). In addition, the



results provide practical implications for policymakers, suggesting the development of alternative strategies and programs to improve tax revenue mobilization through enhanced tax compliance. This highlights the importance of perceived tax fairness and trust in government as key determinants of tax compliance. Therefore, it creates an opportunity for governments and policymakers to design a tax regime that is perceived as fair and trustworthy by SME actors, while also focusing on improving their knowledge and awareness of the existing tax framework. Such efforts would significantly help increase their level of tax compliance. These findings are aligned with previous literature (Adem et al., 2024; Jassem et al., 2022; Nathan, 2026; Povitkina et al., 2021). However, they differ from the conclusions of (Bobek et al., 2025; Castañeda, 2024; Zhao et al., 2025b).

### **The effect of trust in the government on tax compliance**

We further observe that trust in government has a significant positive effect on tax compliance. This means that the higher the level of trust in government, the stronger the level of tax compliance. This occurs because trust is a fundamental foundation in the relationship between the state and taxpayers, particularly within a voluntary compliance-based tax system. Trust in government operates simultaneously at psychological, moral, and institutional levels, which collectively encourage taxpayers to comply with their tax obligations in a more consistent and voluntary manner (Appiah et al., 2024). In addition, the role of trust in government in influencing tax compliance arises because trust shapes how taxpayers assess risk, motivation, and the perceived legitimacy of the tax system (Abdala et al., 2025). Thus, its effect emerges through a combination of perceived security, legitimacy, social relationships, and internal motivation, all of which together significantly drive tax compliance.

The significant influence of trust in government on tax compliance is particularly evident in improvements in both the quality and sustainability of tax compliance. Overall, this leads to the creation of a tax system that is more effective, efficient, and sustainable, as it is supported by compliance based on trust rather than mere surveillance (Baah-Peprah et al., 2024). Therefore, the implications of trust in government for tax compliance emphasize that compliance cannot be achieved solely through rules and sanctions, but also through strengthening institutional legitimacy and public trust. The main implication is the need to build a tax system that is not only strong in regulation but also strong in trust, as trust represents the fundamental foundation of sustainable tax compliance.

This is consistent with the conclusions of (Appiah et al., 2024; Baah-Peprah et al., 2024; Inasius et al., 2020). Trust in government can be seen as the foundation of a “state of the palace” that supports governmental legitimacy, reflected in active participation in taxation, SMEs’ willingness to cooperate with the government, the belief that government institutions act in the interest of SMEs, and the perception that public officials are transparent in tax-related matters (Ma et al., 2024). However, other literature presents a different perspective, such as Akinlabi, (2025); Baah-Peprah et al., (2024); Belabas & Migchelbrink, (2025), arguing that supervision is not the only determining factor. Instead, the primary emphasis should be on building a tax system that is more effective, efficient, and sustainable, and on fostering compliance grounded in trust.



### **The effect of trust in the government on tax fairness**

We also observe that trust in government has a significant positive effect on tax fairness. This means that the stronger the trust in government among SME actors, the higher their perception of tax fairness. This suggests that the significant impact of trust in government on tax fairness arises because trust shapes how taxpayers evaluate whether the tax system is implemented in a fair, transparent, and consistent manner. Thus, this effect occurs because trust in government forms both cognitive and emotional frameworks that lead taxpayers to be more likely to perceive the tax system as fair, transparent, and acceptable (Genova et al., 2025).

In fact, the significant impact of trust in government on tax fairness is primarily reflected in how taxpayers perceive and respond to the tax system. The ultimate outcome is a tax system that is not only complied with but also perceived as fair and acceptable by taxpayers, particularly SME actors. Through these positive perceptions and responses toward the tax system among SMEs, several implications arise from the influence of trust in government on tax fairness. One key implication is that the construction of a tax system cannot be separated from efforts to strengthen public trust in government. In addition, it highlights the importance of adopting a holistic approach to tax reform that does not focus solely on regulations and law enforcement, but also simultaneously emphasizes the development of trust and perceptions of fairness. This is consistent with the conclusions of (Baah-Peprah et al., 2024; Ma et al., 2024; Povitkina et al., 2021). However, it differs from earlier literature, which argues that even when the tax system is implemented in a fair, transparent, and consistent manner, the absence of trust can render the influence of trust in government on tax fairness insignificant (Akinlabi, 2025; Baah-Peprah et al., 2024; Genova et al., 2025).

### **The effect of trust in the government on tax compliance, mediated by tax fairness**

In addition, this study examines the role of tax fairness in the relationship between trust in government and tax compliance, finding a significant effect. Trust in government serves as a fundamental foundation that fosters SME taxpayers' loyalty toward the fiscal system. When SMEs trust the government and tax authorities, perceptions of fairness are more likely to develop, which in turn encourages tax compliance behavior (Jassem et al., 2022). Tax fairness plays the role of a "golden bridge" because the tax compliance process is not direct but instead проходит through stages of perception before translating into action. Thus, tax fairness functions not only as a cognitive and psychological bridge that transforms trust in government into tangible and measurable tax compliance, but also as a mechanism that shapes compliance through a gradual process, from trust in institutions, to evaluation of the system, and finally to behavior (Zhao et al., 2025a). Therefore, tax fairness acts as a key mechanism linking institutional trust to behavioral decisions through processes of assessment, legitimacy, and justification (Musah et al., 2026). The outcome of this role is stronger, more stable, and awareness-based tax compliance, ultimately leading to a tax system that is more effective, sustainable, and grounded in mutually reinforcing trust and fairness (Eriksson & Andersson-skog, 2025).

Our findings have important theoretical implications: when SME actors perceive government officials as transparent in tax administration, they develop awareness and goodwill toward tax payments, accompanied by perceptions of tax fairness, which

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ultimately lead to tax compliance. This is consistent with the Social Shaping Theory (SST) construct (Adem et al., 2024). Furthermore, our findings provide important evidence that may influence government policy decisions, not only for SMEs in Makassar City but also for policymakers, enabling similar approaches implemented in Makassar to be extended to other regions in Indonesia. In addition, this would ensure greater transparency and increased public trust in the state, thereby facilitating efforts to mobilize tax revenue. Thus, there is a need for synergy among enhancing trust, implementing fair system reforms, and strengthening taxpayer perceptions to create effective and sustainable tax compliance. These findings are consistent with previous literature (Jassem et al., 2022; Musah et al., 2026; Zhao et al., 2025a).

Our findings provide important theoretical evidence that when SME actors perceive transparency from government officials in tax-related matters, it fosters both awareness and a genuine intention to pay taxes. This trust contributes to the perception of tax fairness, ultimately leading to improved tax compliance. These insights are consistent with the framework of SST (Adem et al., 2024). Furthermore, our study offers critical practical implications that may inform government policy decisions not only for the SME sector in Makassar City, but also for other regions across Indonesia with similar policy environments. First, tax knowledge drives both compliance and revenue generation. Regulators should begin their tax mobilization efforts with education and training programs if they aim for long-term success. Second, the government must strengthen its institutional framework to minimize corruption, misuse of public funds, and wasteful spending by state officials. These measures are essential for ensuring transparency and building public trust in the government, which, in turn, will support the broader effort to mobilize tax revenue.

### **CONCLUSION**

This study examined whether tax knowledge, trust in government, and tax fairness influence tax compliance among SME actors in Makassar City. The findings reveal that tax knowledge has not yet become a primary driver of tax compliance among SMEs introducing a new perspective on SME tax behavior. However, tax knowledge does make a significant contribution to tax fairness, and notably, tax fairness mediates the relationship between tax knowledge and tax compliance. Furthermore, the study found that trust in government significantly affects tax compliance. Similarly, trust in government also has a significant effect on tax fairness, and as a result, tax fairness plays a significant mediating role in the relationship between trust in government and tax compliance. Taken together, these findings offer valuable theoretical implications and provide support for the relevance of SST in explaining tax behavior with the exception of the direct link between tax knowledge and tax compliance. In addition, our results offer practical implications for SME actors and tax authorities in improving compliance and strengthening public trust in the tax system.

This study is not without its limitations. First, it is based on data from SMEs in Makassar City, and therefore, caution should be exercised when attempting to generalize the findings to other regions or types of businesses. Second, although we acknowledge that tax fairness significantly mediates the relationship between the

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independent and dependent variables, it is important to note that tax fairness may not be the only mediating variable. Future researchers are encouraged to explore alternative mediators that may provide additional insights. Finally, there may be other explanatory variables that significantly influence tax compliance. For instance, factors such as tax morale, and insights from behavioral economics, could play a crucial role. Thus, further studies are needed to better understand how tax fairness contributes to fostering voluntary tax compliance among SMEs, particularly in developing countries.

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