The Influence of Tax Knowledge Modernization and Awareness on Freelance Taxpayers with Income Level as a Moderating Variable

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Abstract - *Tax has a strategic function as an instrument for equality, distribution, and development, so the success of tax collection is greatly determined by the degree of societal adherence. The objective of this research is to investigate and evaluate whether the extent of taxation comprehension influences the adherence of individuals engaged in freelance occupations to tax obligations; to investigate and evaluate whether the degree of taxpayer consciousness impacts their conformity in freelance professions; to investigate and evaluate the mediating function of earnings level on the relationship between tax literacy and taxpayer adherence in freelance contexts; and to investigate and evaluate the moderating effect of earnings on the relationship between taxpayer awareness and adherence within freelance employment. This investigation employs a quantitative research design. The findings indicate that income as a variable neither enhances nor diminishes the correlation between tax awareness and compliance. This implies that an individual's understanding of tax responsibilities remains the main driver of compliance, regardless of the amount of income they have. Whether an individual has low or high income, as long as they have high tax awareness, their tendency to fulfill tax obligations remains consistent. These findings emphasize that a moral and educational approach to building awareness could be an effective strategy for increasing tax compliance across all levels of society.*

Keywords - *Tax knowledge modernization, taxpayer awareness, freelance tax.*

I. INTRODUCTION

State revenue derived from the gas sector and oil, taxation, and non-tax sources serves as the main foundation for financing the State Budget (APBN). Among these, tax revenue contributes the most significant share, making it the backbone of national development funding (Humayra et al., 2022). According to data from "the Ministry of Finance of the Republic of Indonesia", the target for state revenue in the 2024 State Budget (APBN) is IDR 2,802.3 trillion, with the largest proportion coming from taxation at IDR 2,309.9 trillion, while non-tax revenue contributes only IDR 492.0 trillion. This underscores the central role of taxpayers in supporting national development. Taxation serves a strategic function as an instrument for equity, distribution, and development, making the success of tax collection highly dependent regarding the extent of societal adherence. However, the reality shows that Indonesia's tax collection system still faces various challenges, such as low taxpayer awareness and a lack of transparency in the use of tax funds (Agustina & Hartono, 2022). In the self-assessment system used in Indonesia, Individuals liable for taxation are entrusted with the responsibility to compute and disclose their own tax obligations. Therefore, compliance becomes a crucial element in ensuring the effectiveness of this system (Nailul Huda, 2019).

"Data from the Directorate General of Taxes" shows that although the compliance ratio increased from 77.63% in 2020 to 86.80% in 2022, this achievement is still far from the ideal target. In fact, in 2024, with 19.27 million taxpayers required to file their annual tax returns (SPT), only 12.7 million actually filed, resulting in an actual compliance ratio of just 65.8%. This disparity reflects structural issues within the tax system that need to be addressed promptly. An OECD report also highlights that Indonesia's proportion of fiscal income to the total national output continues to be significantly low at only 10.1% in 2020, far below the Asia-Pacific average of 19.1%. This situation places Indonesia in the third-lowest rank, ahead of only Bhutan and Laos. According to

OECD economist Andrea Goldstein, this reflects The community's limited comprehension regarding significance of fiscal contribution. One of the main causes is the negative perception associated with taxes, such as viewing taxes as a burden, doubts about the effectiveness of fund management, and concerns over corruption (Andara Hafzha Gustria Putri et al., 2022).

Fiscal psychology studies show that although positive representations of taxes, such as their contribution to development and public welfare, have developed considerably, negative representations tend to emerge more easily and influence taxpayer behavior. This explains why continuous tax education is crucial in building public understanding that taxes are a collective contribution to the common welfare. Taxpayer compliance itself has several key indicators, such as compliance in the registration process, timely submission of tax returns (SPT), accuracy in calculating and paying the owed taxes, and compliance with tax assessment notices (Hanvansen & Wenny, 2022). However, the ideal achievement of these indicators is still far from optimal. Various efforts, such as increasing tax literacy, digitalization of services, and strengthening legal sanctions, continue to be promoted, although behavioral and cultural barriers remain a significant challenge.

Real cases of tax violations, such as those committed by the Director of PT RMI (IS) and entrepreneur Hartanto Sutardja, further emphasize the importance of law enforcement in creating a deterrent effect and improving fiscal morals. Crimes such as submitting fictitious tax returns (SPT) and tax evasion not only harm state finances but also create fiscal burdens among the law-abiding taxpayers. Low taxpayer compliance is a multidimensional issue that includes regulatory, psychological, and structural aspects. Increasing public awareness and understanding of the importance of taxes as a national welfare instrument should be a priority agenda for the government. Public education, budget management transparency, and the enforcement of strict laws are integral strategies to create a fair, effective, and sustainable tax system. If tax compliance increases, not only will state revenue grow, but it will also foster hopes for equitable and just development for all people of Indonesia.

II. MATERIALS AND METHODS

This research was conducted at the Professional Certification Institute of the Indonesian Waqf Agency, located in the Bayt Al Qur'an Building, Taman Mini Indonesia Indah, East Jakarta. The research took place over seven months, from April to December 2024. The investigative framework implemented constitutes an explanatory model, intended to evaluate the causal linkage between autonomous and outcome factors. This investigation adopts a numerical methodology via a poll by circulating structured forms to participants who represent the subjects of the inquiry. The primary emphasis of this analysis is to assess the influence of tax knowledge (X1), tax awareness (X2), and income level (X3) on taxpayer compliance (Y). This research refers to Sugiyono's (2018) view, which states that a positivist-based quantitative approach involves the use of investigative tools and quantitative data examination to evaluate hypotheses. The independent variables in this research are elements regarded as having an influence on adherence, specifically understanding and consciousness, and income, while taxpayer compliance is the dependent variable. Through a survey approach, this research aims to describe the extent to which these factors contribute to increasing individual tax compliance levels.

III. RESULTS AND DISCUSSION

A. Research Instrument Quality Assumption Test

The outer model tests The authenticity and consistency of the framework. To assess the external framework, convergent credibility, discriminant credibility, and combined dependability are used. Based on the output of the PLS Algorithm above, it is evident that the values obtained for each indicator to measure each construct are sufficient, meaning they are greater than 0.7. The convergent validity test of the indicators is reflected in the factor loading values.

B. Average Variance Extracted (AVE)

The diversity or variation of the indicators possessed by a latent variable can be observed by looking at the AVE value. The ability of a latent variable to reflect an indicator is proportional to the variety and variance of the indicators it can cover. The absolute value of each variable must be greater than 0.5. Below is a table displaying the AVE values.
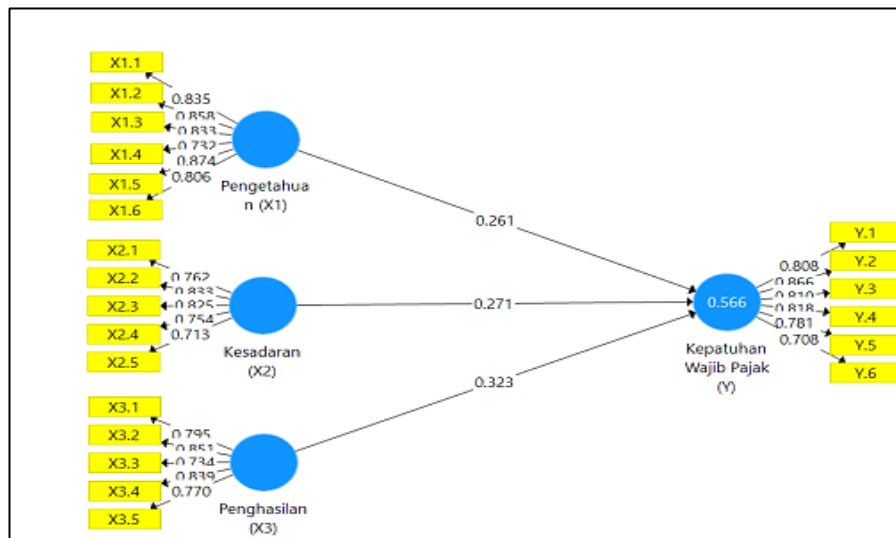
Figure 1. PLS Algorithm Output Results

Table 1. AVE Values

Variable	Condition	AVE
Knowledge (X1)	>0.5	0.680
Awareness (X2)	>0.5	0.606
Income (X3)	>0.5	0.638
Compliance (Y)	>0.5	0.640

Source: SmartPLS data output

Based on the aforementioned chart, it is observable that the square root of the mean extracted variance (AVE) for every construct exceeds the threshold of 0.5. Consequently, it can be concluded that each construct within this research possesses a satisfactory AVE measurement. This is shown by the AVE value for knowledge (X1) of 0.680, awareness (X2) of 0.606, income (X3) of 0.638, and compliance (Y) of 0.640

C. Discriminant Validity

Discriminant validity is utilized to evaluate the legitimacy of a framework. The discriminant validity metric is observed through the Cross Loading metric, which indicates the extent of association between the construct and its indicators, as well as the indicators of other constructs (Hair et al., 2022). The benchmark criterion applied for Cross Loading is that it must exceed 0.7 or by contrasting the square root of the mean variance extracted (AVE) metrics for each unobserved variable concerning the association between the unobserved variable and other unobserved variables within the framework. If the square root of the Average Variance Extracted (AVE) for each unobserved variable surpasses the correlation coefficient between that unobserved variable and other unobserved variables in the framework, it can be concluded that it exhibits sufficient discriminant validity. The results of the Cross Loading analysis for discriminant validity are displayed in the table below:

Table 2. Discriminant Validity Test Results (Cross Loading)

	Knowledge (X1)	Awareness (X2)	Income (X3)	Taxpayer Compliance (Y)
X1.1	0.835	0.538	0.499	0.550
X1.2	0.858	0.557	0.602	0.523
X1.3	0.833	0.502	0.447	0.544
X1.4	0.732	0.575	0.529	0.464
X1.5	0.874	0.607	0.596	0.552
X1.6	0.806	0.655	0.654	0.642

X2.1	0.590	0.762	0.455	0.491
X2.2	0.597	0.833	0.589	0.605
X2.3	0.493	0.825	0.405	0.505
X2.4	0.510	0.754	0.516	0.509
X2.5	0.526	0.713	0.402	0.392
X3.1	0.557	0.483	0.795	0.510
X3.2	0.561	0.549	0.851	0.619
X3.3	0.468	0.451	0.734	0.470
X3.4	0.569	0.498	0.839	0.539
X3.5	0.543	0.467	0.770	0.508
Y.1	0.594	0.486	0.618	0.808
Y.2	0.556	0.539	0.533	0.866
Y.3	0.526	0.503	0.471	0.810
Y.4	0.551	0.568	0.555	0.818
Y.5	0.423	0.472	0.377	0.781
Y.6	0.523	0.541	0.593	0.708

Source: Output Data Smartpls

From the preceding chart, it may be inferred that the cross loading metrics for each specified construct are higher compared to the loading values for the constructs to the left and right. This can be inferred that all the measures are legitimate and there are no issues with discriminant validity.

D. Reliability Test

This test is designed to ensure that the measurement tools for the constructs are accurate, consistent, and precise. Cronbach's Alpha and Composite Reliability, the two measures used in SmartPLS, must yield results greater than 0.7 to establish the reliability of the construct indicators.

Table 3. Composite Reliability

Variable	Composite reliability	Description
Knowledge (X1)	0.927	reliabel
Awareness (X2)	0.885	reliabel
Income (X3)	0.898	reliabel
Compliance (Y)	0.914	reliabel

Source: Output Data Smartpls

The data processing findings for Table 3 show that all constructs have Composite Reliability scores greater than 0.7, indicating good reliability.

Table 4. Crobach's Alpha

Variable	Cronbach's alpha	Description
Knowledge (X1)	0.905	reliabel
Awareness (X2)	0.838	reliabel
Income (X3)	0.858	reliabel
Compliance (Y)	0.887	reliabel

Source: Output Data Smartpls

When the construct value exceeds 0.7, reliability testing can be further reinforced using Cronbach's Alpha. Table 4 shows that all research variables have Cronbach's Alpha values greater than 0.7, indicating that these variables are highly reliable.

E. Structural Model Evaluation (Inner Model)

When examining the association among constructs, the notable values, and the coefficient of determination of the study framework, Structural Model Evaluation or Inner Model is used. When explaining how external latent

factors affect endogenous latent variables, changes in R-Square values are used. The R-Square value can range between zero and one, with figures nearer to one denoting increased prediction accuracy. Below are the R-Square results using SmartPLS.

Table 5. R-Square Value

	R Square	R Square Adjusted
Taxpayer Compliance (Y)	0.599	0.580

Source: Output Data Smartpls

Table 5 shows that the R-Square for this study is 0.566. This means that tax awareness, knowledge, and income explain 59.9% of taxpayer compliance, which is considered a strong effect as it falls within the range of 0.50-0.75. The remaining 40.1% is impacted by external factors beyond the boundaries of this research's predictions.

F. Hypothesis Testing

For hypothesis testing, the structural model coefficient analysis determines which associations significantly influence the findings. A relationship is considered significant if the p-value is less than 0.05 and not significant if it is greater.
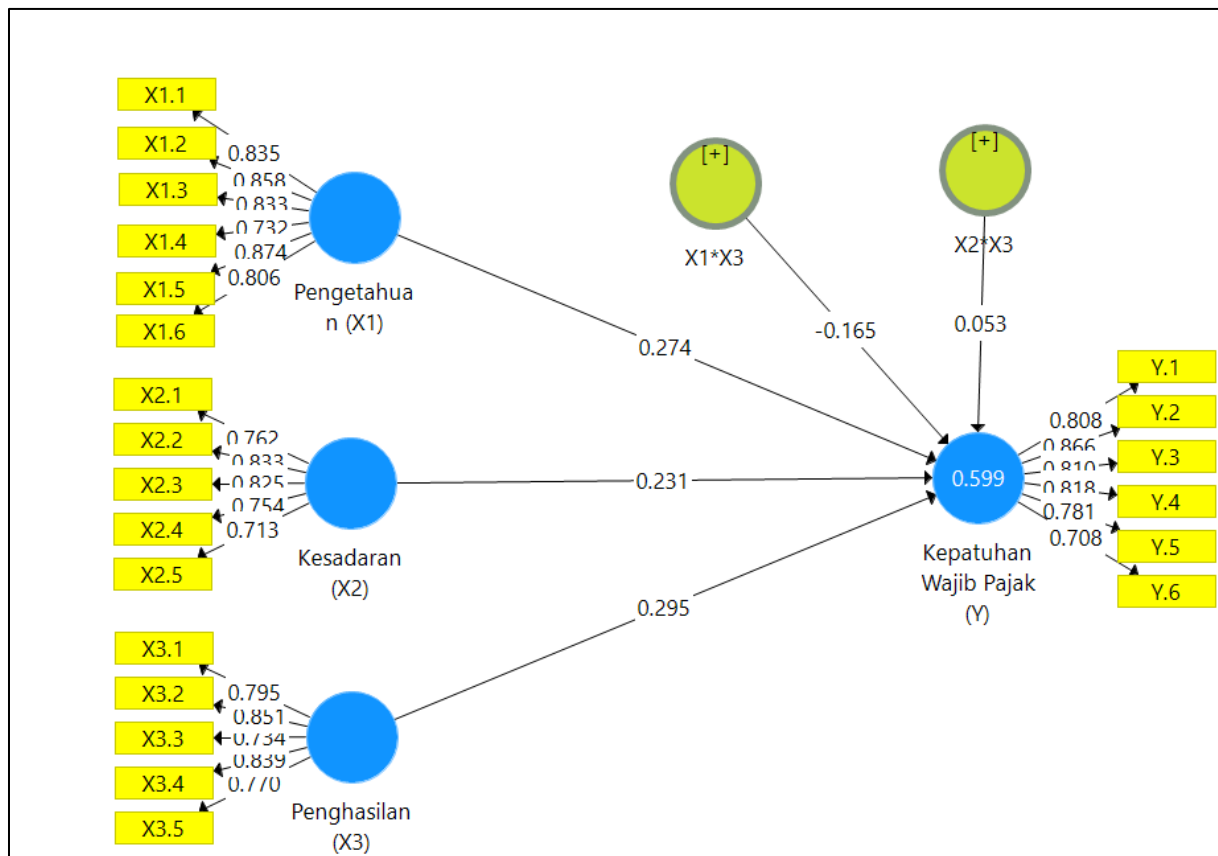
Figure 2. Bootstrapping Test

Source: SmartPLS Data Output

Table 6. Path Coefficient

Path Coefficient	Original Sample (O)	T Statistics	P Values
Knowledge (X1) -> Taxpayer Compliance (Y)	0.274	2.922	0.004
Awareness (X2) -> Taxpayer Compliance (Y)	0.231	2.206	0.028
X1*X3 -> Taxpayer Compliance (Y)	-0.165	2.416	0.016
X2*X3 -> Taxpayer Compliance (Y)	0.053	0.663	0.507

Source: SmartPLS Data Output

Through the bootstrapping test results in Table 6, it can be seen that:

1. X1 Tax Knowledge -> Y Taxpayer Compliance has an Original Sample (O) value of 0.261 with a t-statistic of 2.243, greater than the t-table value (1.659), and a P Value of 0.025, which is smaller than 0.05. Based on these values, there is a significant positive effect. Therefore, H1 is accepted, and H0 is rejected.

2. X2 Awareness -> Y Taxpayer Compliance has an Original Sample (O) value of 0.271 with a t-statistic of 2.259, greater than the t-table value (1.659), and a P Value of 0.024, which is smaller than 0.05. Based on these values, there is a significant positive effect. Therefore, H2 is accepted, and H0 is rejected.

3. X1 Tax Knowledge * X3 Income Level -> Y Taxpayer Compliance has an Original Sample (O) value of -0.165 with a t-statistic of 2.416, greater than the t-table value (1.659), and a P Value of 0.016, which is smaller than 0.05. Based on these values, there is a significant negative effect. Therefore, H3 is accepted, and H0 is rejected.

4. X2 Awareness * X3 Income Level -> Y Taxpayer Compliance has an Original Sample (O) value of 0.053 with a t-statistic of 0.663, which is smaller than the t-table value (1.659), and a P Value of 0.507, which is greater than 0.05. Based on these values, there is a positive but not significant effect. Therefore, H4 is rejected, and H0 is accepted.

G. The Influence of Tax Knowledge on Individual Taxpayer Compliance

The analysis results show that taxpayer compliance is positively and significantly influenced by tax knowledge. Based on these findings, taxpayers highly require tax education to improve tax compliance. Individuals who were previously non-compliant may change their mindset after gaining a deeper understanding of the tax system. According to proponents of attribution theory, an individual's actions are driven by internal factors, such as their knowledge. When taxpayers have accurate and up-to-date knowledge about their tax rights and obligations, they will be more capable of exercising those rights and fulfilling their duties in taxation. Tax education increases the likelihood of society paying taxes on time and according to their capacity. The findings of this investigation corroborate the research carried out by (Latief et al., 2020) which shows that tax compliance significantly increases with tax knowledge. This contrasts with the research conducted by (Agustina & Hartono, 2022) which shows that tax compliance is not influenced by tax knowledge. According to attribution theory, both internal and external influences affect behavior. Skills, knowledge, and effort are examples of internal forces (Mufidah, 2019). In order to exercise their rights and fulfill their responsibilities in taxation, taxpayers must have the most basic knowledge of taxation (Wardani & Asis, 2017). An individual's level of compliance with tax obligations is positively correlated with their level of tax knowledge.

H. The Influence of Awareness on Individual Taxpayer Compliance

The examination findings indicate that fiscal consciousness exerts a favorable and meaningful impact on adherence. This study indicates that taxpayer awareness is relatively good because most of the public already possesses moral awareness about paying taxes. Attribution theory states that taxpayer knowledge comes from within the taxpayer. Taxpayers have compliance awareness when they know, understand, respect, and comply with all tax regulations and feel a moral obligation to pay and report all taxes according to legal provisions. The honesty of taxpayers in fulfilling their tax obligations and their awareness of their conscience reflects their tax compliance (Nilla & Widyawati, 2021). Taxpayer awareness is a personal variable and is generated internally, according to attribution theory (Maghriby & Ramdani, 2020) . To find out taxpayer compliance, taxpayer education is needed. Higher taxpayer awareness in tax reporting will result in better compliance. When taxpayers are aware of their tax responsibilities and know, understand, To find out taxpayer compliance, taxpayer education is needed. Higher taxpayer awareness in tax reporting will result in better compliance. If taxpayers really care about fulfilling their tax obligations, it will be seen from their desire to do the right thing and their level of self-awareness (Arsila, 2017). If members of society are highly self-aware, it will spread throughout the economy and increase the level of compliance. This analysis supports the research (Putro & As'ari , 2023) which shows that taxpayer knowledge has a significant influence on taxpayer compliance.

I. Moderation Effect of Income Level on the Influence of Knowledge on Individual Taxpayer Compliance

The findings of this research demonstrate that fiscal understanding moderated by income has a significant negative impact on taxpayer adherence. This finding conceptually indicates that increasing tax knowledge does

not always have a positive impact on compliance, especially when taxpayers have high income levels. In the moderation model, income functions as a factor that changes the direction or strength of the relationship between knowledge and tax compliance. This means that in the group of taxpayers with low to moderate income, increasing knowledge tends to increase compliance because they gain a better understanding of tax obligations, rights, and sanctions. However, in the high income group, increasing knowledge can actually cause compliance to decrease, because they have a greater capacity to carry out aggressive tax planning strategies or even avoid tax obligations legally (tax avoidance) by exploiting legal loopholes in the tax system (Hanlon & Heitzman, 2010) .

This phenomenon is in line with the rational approach proposed by Allingham & Sandmo (1972) , which states that individual decisions to comply with or avoid taxes are influenced by rational profit-loss calculations, including audit risks and sanctions. This is confirmed by research by Jin et al. (2022) which shows The conduct of tax adherence is affected by personal interpretations of losses and benefits, as well as how the information is framed (framing effect) in a social and economic context. In this context, taxpayers with high incomes tend to be more willing to take risks because the potential benefits obtained from tax avoidance are considered greater than the potential losses. In addition, they also have access to professional resources such as tax consultants and financial advisors who can provide legal tax efficiency strategies. The knowledge they have not only serves as a tool to understand obligations, but also as a means to evaluate the most effective tax reduction strategies. As a result, even though the level of tax literacy is high, actual compliance can be lower than the lower middle income group who are more dependent on fulfilling obligations conventionally.

J. Moderation Effect of Income Level on the Influence of Awareness on Individual Taxpayer Compliance

According to the evaluation findings, income cannot moderate the relationship between awareness and taxpayer compliance. This means that a person's income level does not affect how strongly tax awareness drives their adherence to meeting fiscal duties. In other words, both individuals with low and high incomes, if they have high tax awareness, tend to still show similar levels of compliance. This shows that tax awareness plays an important role independently of compliance, without being influenced by the taxpayer's income level.

Tax awareness refers to taxpayers' understanding and knowledge the significance of taxes in the progress of the country, as well as the legal obligations attached to them as citizens. Although a person's income can affect their ability to pay taxes, the results of the study indicate that it is not enough to change the impact of tax awareness on compliance. In other words, individuals with high or low incomes who have high tax awareness will tend to have good tax compliance. Conversely, those who are less aware of the importance of taxes or do not understand their tax obligations, despite having high incomes, are likely to remain less compliant in fulfilling their tax obligations. This suggests that psychological and social factors such as tax awareness are more dominant in influencing compliance compared to economic factors such as income .

IV. CONCLUSION

Based on the results and discussions presented previously, several important conclusions can be drawn regarding the elements that affect taxpayer adherence. First, it is known that the level of taxpayer knowledge contributes positively and significantly to compliant behavior in fulfilling tax obligations. This finding indicates that the better a person's understanding of the tax system, the more likely they are to comply. This emphasizes the importance of ongoing tax education programs, because individuals who were previously non-compliant can experience a change in attitude after understanding the rules and benefits of taxes in more depth. Second, taxpayer awareness has also been shown to have a significant positive influence on compliance. In this context, awareness is interpreted as an internal moral drive to fulfill obligations without having to be forced or closely monitored by the tax authorities. The majority of respondents in this study showed a fairly good level of awareness, which means that compliance values are starting to grow naturally in society.

Interesting results emerged when tax knowledge was analyzed by considering the moderating factor of income level. The results showed that for individuals with higher incomes, increased knowledge can actually decrease the degree of adherence. This occurrence may be elucidated by the possibility that high-income individuals have access to more complex tax planning information and strategies, including tax avoidance techniques that are carried out legally through loopholes in the tax system. In other words, the higher a person's income and

knowledge, the greater their chances of developing tax saving strategies that are not illegal, but still reduce their actual contribution to the state. This study found that the income variable was incapable of enhancing or diminishing the connection between tax consciousness and adherence. This means that a person's tax awareness remains the main driver of compliance, regardless of the size of the income they have. Both individuals with low and high incomes, as long as they have high tax awareness, the tendency to fulfill tax obligations remains consistent. These results emphasize that a moral and educational approach to building awareness can be an effective strategy to improve tax compliance in all levels of society.

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