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DETERMINANTS OF VALUE ADDED TAX REPORTING COMPLIANCE IN THE RETAIL SECTOR

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Abstract
Value-Added Tax (VAT) is a major source of state revenue and plays an important role in financing national development. However, VAT reporting compliance in the retail sector faces challenges related to transaction complexity, product diversity, and changes in tax regulations. This study analyzes the determinants of VAT reporting compliance in the retail sector, namely tax complexity, fines and tax sanctions, tax ethics, government transparency and accountability, tax service quality, and VAT understanding. A quantitative cross-sectional survey was conducted using primary data collected through questionnaires from 100 retail businesses registered as Taxable Entrepreneurs in the northern coastal area of East Java. Respondents were selected using purposive sampling, and the data were analyzed with multiple linear regression using SPSS. The results show that tax complexity has a negative and significant effect on VAT reporting compliance, while VAT understanding, fines and sanctions, tax ethics, government transparency and accountability, and tax service quality have positive and significant effects. The model explains 74.8% of the variation in VAT reporting compliance. These findings support an integrated approach combining regulatory simplification, tax literacy, enforcement, ethical awareness, transparency, and service improvement.

Keywords: government accountability; retail sector; tax complexity; tax service quality; VAT compliance

INTRODUCTION

Value Added Tax (VAT) is a key pillar of Indonesia's state revenue structure. According to the 2023 performance report of the Directorate General of Taxes, VAT and Sales Tax on Luxury Goods revenue reached IDR 763.63 trillion, with domestic VAT reaching IDR 475.8 trillion, representing a year-on-year growth of 21.91% (Hapsari et al., 2024). This position demonstrates the importance of VAT in supporting fiscal stability. Policy adjustments through Minister of Finance Regulation 131/2024, effective January 1, 2025, also place VAT administration and compliance as increasingly relevant issues, particularly for business sectors with high transaction intensity (Rezkiyanti et al., 2025). The retail sector plays a strategic role in the national economy and is undergoing significant transformation due to digitalization and changing consumption patterns. Data compiled by the Central Statistics Agency (BPS) shows fluctuating growth in the wholesale and retail trade sector, including contraction during the pandemic and subsequent recovery. Under these conditions, VAT compliance in the retail sector requires attention due to the high number of transactions, product variety, conventional and digital sales models, and regulatory changes, which increase administrative demands for Taxable Entrepreneurs (PKP).

Research by Lutfi et al. (2023) on the retail industry shows that VAT compliance decisions are influenced by a combination of socio-economic determinants and tax knowledge. Tax complexity, sanctions, ethics, perceptions of government spending, and service quality are all factors that can influence taxpayer behavior. In the Indonesian context, the self-assessment system places the responsibility for calculation, payment, and reporting on taxpayers, making the level of understanding of VAT mechanisms an inseparable factor for compliance. The complexity of the VAT system can arise from diverse rules, administrative procedures, input and output tax calculations, object determination, use of tax invoices, and changes in provisions. Richardson (2006) and Saad (2014) show that a complex tax system is associated with decreased compliance. Complexity can also increase compliance costs because taxpayers require time, resources, and, in some cases, professional assistance to fulfill their obligations (Musimenta et al., 2017). On the other hand, understanding taxation helps taxpayers reduce errors and increases their ability to fulfill their obligations correctly and timely.

Law enforcement remains a crucial element. The economic model of compliance developed by Allingham and Sandmo (1972) explains that taxpayers weigh the benefits of non-compliance against the risk of detection and the consequences of sanctions. Subsequent developments in the compliance approach have emphasized not only the power of authority but also trust. The Slippery Slope Framework explains that compliance can be shaped through the interaction between power of authority and trust in authorities (Kirchler et al., 2008). Thus, fines and sanctions are important, but the effectiveness of compliance is also related to legitimacy, service, and taxpayers' relationship with the government. The ethical dimension broadens the analysis from forced compliance to voluntary compliance. Tax morale explains an individual's intrinsic motivation to pay taxes. Torgler (2005) and Bobek et al. (2013) place moral values, social norms, and ethical standards as crucial components of compliance decisions. Taxpayers with stronger integrity and moral responsibility tend to view paying and reporting taxes not only as a legal obligation but also as a responsibility to the state and society.

Perceptions of government transparency and accountability are also relevant because the relationship between taxes and public services is reciprocal. Fiscal exchange theory explains that willingness to pay taxes can increase when the public perceives that tax revenues are used transparently, accountably, and generate public benefits (Buchanan, 1976). Field evidence also suggests that an emphasis on public development outcomes can strengthen compliance (Schächtele et al., 2023). At the same time, the quality of tax services influences taxpayers' experience in fulfilling their obligations. Responsive, accessible, consistent, and professional services can reduce administrative barriers and strengthen trust in authorities (Gangl et al., 2015).

Based on the above description, this study aims to examine and analyze the influence of tax complexity, tax fines and sanctions, tax ethics, government transparency and accountability, tax service quality, and VAT understanding on VAT reporting compliance in the retail industry. The study combines structural, cognitive, enforcement, moral, public policy perception, and service factors in one empirical model to provide a more comprehensive picture of the determinants of VAT compliance in the retail sector in East Java.

LITERATURE REVIEW

Theory of Planned Behavior and Tax Compliance

The Theory of Planned Behavior (TPB) explains that behavior is preceded by intention, while intention is influenced by attitude toward the behavior, subjective norms, and perceived behavioral control (Ajzen, 2011). In the context of taxation, attitude reflects a taxpayer's assessment of compliance; subjective norms reflect social incentives; and perceived behavioral control relates to the taxpayer's ability to understand and fulfill obligations. VAT compliance, as a planned behavior, is closely related to the ability to master procedures and regulations, so understanding VAT is an important part of perceived behavioral control.

Tax Complexity and Understanding VAT

Cognitive Load Theory explains that human working memory capacity is limited. When rules and procedures are too complex, cognitive load increases and can reduce an individual's ability to process information and make accurate decisions (Sweller, 1988). In taxation, complexity can stem from numerous rules, changing provisions, reporting procedures, and the need to differentiate VAT treatment for various transactions. Saad (2014) found that tax knowledge and tax complexity are related to compliance from a taxpayer perspective. The more difficult a system is to understand, the greater the risk of unintentional errors and the tendency to avoid obligations.

Understanding VAT can be explained through Knowledge-Based Theory, which positions knowledge as a strategic resource for organizations (Grant, 1996). Explicit knowledge encompasses rules, rates, procedures, and technical provisions, while tacit knowledge relates to experience in applying provisions to business situations. VAT has specific mechanisms related to collection, input tax, output tax, crediting, tax invoices, payments, and reporting. The effectiveness of the VAT system depends heavily on the ability of VAT-Registered Persons (PKP) to understand these mechanisms (Cnossen, 2022; Keen & Lockwood, 2010).

Deterrence Theory, Tax Fines and Sanctions

Deterrence theory views individuals as rational decision-makers who weigh the benefits and costs of an action. In taxation, compliance is expected to increase when the consequences of non-compliance are perceived to outweigh the potential benefits. Fines and sanctions serve as law enforcement tools that can have a deterrent effect. Their effectiveness is related not only to the magnitude of the sanction, but also to the certainty of its application and the perception of fairness. The slippery slope framework expands on this explanation by emphasizing that power of authority can encourage enforced compliance, while trust can shape voluntary compliance (Kirchler et al., 2008).

Tax Ethics and Tax Morale

Tax ethics refers to moral values and integrity that influence taxpayer behavior in fulfilling tax obligations. Torgler (2005) defines tax morale as an intrinsic motivation to pay taxes. Values of honesty, integrity, social responsibility, and commitment to obligations can encourage compliance even when direct supervision is limited. Bobek et al. (2013) also demonstrate the importance of social norms in compliance behavior. In this study, tax ethics is positioned as an internal factor that can increase voluntary VAT reporting compliance.

Transparency, Accountability, and Fiscal Exchange

Fiscal exchange positions the relationship between taxpayers and the government as a fiscal exchange. Tax payments are seen as linked to the provision of public services, infrastructure, education, health, and other development benefits. When the government is perceived as transparent and accountable in using public funds, the legitimacy of the tax system and public trust can increase. Buchanan (1976), Alm et al. (2017), and Schächtele et al. (2023) provide a basis for understanding how perceptions of public benefits and institutions are related to compliance. In the context of this research, government transparency and accountability are measured by taxpayers' perceptions of the use of tax funds, the quality of public services, program benefits, spending accountability, and the fairness of benefit distribution.

Quality of Tax Services

Tax service quality reflects the authority's ability to provide services that support the fulfillment of VAT obligations. Its dimensions include facilities, reliability, responsiveness, assurance, and empathy, as adopted in the research instrument. Services that are easily accessible, responsive, and consistent, and supported by an efficient administrative system, can reduce the burden of compliance. Gangl et al. (2015) demonstrated that power and trust dynamics play a role in compliance, thus ensuring that the quality of interactions and services from authorities are part of the environment that shapes taxpayer behavior.

Hypothesis Development

The literature on tax complexity indicates that increasing the complexity of rules and procedures increases administrative costs and the cognitive burden on taxpayers. Richardson (2006), Saad (2014), and Musimenta et al. (2017) provide the basis that complexity tends to hinder compliance. Therefore, H1 states that tax complexity negatively impacts VAT reporting compliance in the retail sector. Based on Deterrence Theory and the economic compliance model, fines and sanctions increase the expected cost of non-compliance. Firmness and certainty in the application of tax consequences are expected to increase compliance. Therefore, H2 states that tax fines and sanctions positively impact VAT reporting compliance.

Tax morale and social norms place moral values as drivers of voluntary compliance. Taxpayers with higher integrity, honesty, and responsibility are expected to more consistently fulfill their VAT obligations. Therefore, H3 states that tax ethics has a positive effect on VAT reporting compliance.

Fiscal exchange explains that positive perceptions regarding tax use and public benefits strengthen government legitimacy. Therefore, H4 states that government transparency and accountability have a positive effect on VAT reporting compliance. Furthermore, good tax services are expected to reduce administrative barriers and strengthen trust, so H5 states that the quality of tax services has a positive effect on VAT reporting compliance. VAT understanding is a cognitive capacity that helps taxpayers calculate, pay, and report VAT accurately. In the TPB, this ability is related to perceived behavioral control; in Knowledge-Based Theory, knowledge is a key resource for carrying out organizational processes. Therefore, H6 states that VAT understanding has a positive effect on VAT reporting compliance.

Table 1. Summary of Constructs and Hypothesis Direction

Code	Construct	Conceptual Basis	Directions towards VAT Compliance
KP	Tax Complexity	Cognitive Load; tax complexity	Negative (H1)
DSP	Tax Fines and Sanctions	Deterrence Theory	Positive (H2)
EP	Tax Ethics	Tax morale	Positive (H3)
BP	Government Transparency and Accountability	Fiscal Exchange Theory	Positive (H4)
KLP	Quality of Tax Services	Service and trust	Positive (H5)
PPPN	Understanding VAT	TPB; Knowledge-Based Theory	Positive (H6)

METHOD

Design, Population, and Sample

The study employed a quantitative approach with a cross-sectional survey design. Data were collected at a single point in time to objectively describe the conditions of retail taxpayers and test the relationships between variables. The study population comprised retail industry players in East Java, specifically the Pantura region, with a population of less than 1,000. The study sample consisted of 100 respondents selected using purposive sampling. The respondent criteria were retail companies that had been actively operating for at least two years, had VAT reporting and payment obligations, and were willing to participate (Sugiyono, 2013).

Data Collection and Instruments

Primary data were collected using a structured questionnaire. Questionnaires used a Likert scale of 1 to 5 to measure respondents' perceptions and attitudes, while closed-ended questions addressed business characteristics and demographics. Data were collected through online surveys, in-person visits to business locations, and through retail trade association networks. The unit of analysis was retail companies with VAT (Taxable Entrepreneur) status, with respondents understanding their company's VAT obligations. The dependent variable was VAT Reporting Compliance (KPPN). The independent variables were Tax Complexity (KP), Tax Fines and Sanctions (DSP), Tax Ethics (EP), Government Transparency and Accountability (BP), Tax Service Quality (KLP), and VAT Understanding (PPPN). KPPN encompassed timeliness, document completeness, calculation accuracy, and reporting consistency. KP encompassed difficulty understanding regulations, procedural complexity, frequency of regulatory changes, timeliness, and compliance costs. DSP encompassed the magnitude, certainty, fairness, deterrent effect, and transparency of sanctions. EP encompassed moral awareness, social responsibility, integrity, honesty, and commitment. BP encompassed transparency of fund use, quality of public services, program benefits, accountability, and distributive justice. The KLP encompasses tangibility, reliability, responsiveness, assurance, and empathy. The PPPN measures technical understanding of VAT mechanisms, objects, reporting, when due, crediting, corrections, deadlines, and underpayments or overpayments.

Data Analysis Techniques

The analysis was conducted using SPSS. The stages included descriptive statistics; item validity testing using item-total correlation; reliability testing using Cronbach's Alpha; residual normality testing; multicollinearity testing using Tolerance and Variance Inflation Factor (VIF); heteroscedasticity testing using scatterplots; autocorrelation testing using Durbin-Watson; and multiple linear regression. Hypothesis testing was conducted using the F-test for model feasibility and the t-test for partial effects at a 5% significance level. Validity and reliability procedures followed the SPSS-based quantitative approach used in the study (Sarwono & Handayani, 2021).
The regression model used is:

$$\mathbf{KPPN = \alpha + \beta_1 KP + \beta_2 DSP + \beta_3 EP + \beta_4 BP + \beta_5 KLP + \beta_6 PPPN + \varepsilon}$$

Description: KPPN = VAT Reporting Compliance; KP = Tax Complexity; DSP = Tax Fines and Sanctions; EP = Tax Ethics; BP = Government Transparency and Accountability; KLP = Tax Service Quality; PPPN = VAT Understanding; α = constant; β = regression coefficient; and ε = error term.

Table 2. Main Testing Criteria

Testing	Indicator	Research Criteria
Item validity	r count and Sig.	r count > r table; Sig. < 0.05
Reliability	Cronbach's Alpha	The construct is declared reliable
Normality	Kolmogorov-Smirnov	Sig. > 0.05
Multicollinearity	Tolerance; VIF	Tolerance > 0.10; VIF < 10
Heteroscedasticity	Scatterplot	There is no particular pattern
Autocorrelation	Durbin-Watson	The values are in the range indicating no autocorrelation.
Hypothesis	F/t; Sig.	Sig. < 0.05

RESULTS AND DISCUSSION

Respondent Characteristics and Descriptive Statistics

The research respondents consisted of 100 retail industry players who have been registered as Taxable Entrepreneurs (PKP) and are required to report VAT regularly. Based on the length of service as a PKP, the largest group was 2–5 years (40%), followed by 6–10 years (29%), more than 10 years (18%), and less than 2 years (13%). Based on turnover, 40% of respondents were in the Rp4.8–10 billion range, 33% were in the Rp10–50 billion range, 18% were above Rp50 billion, and 9% were below Rp4.8 billion. In terms of education, Bachelor's degree (35%), followed by High School (32%), Diploma (23%), Master's degree (8%), and others (2%). This distribution indicates that respondents have a sufficient variety of experience, business scale, and educational background to describe the condition of retail PKP in the sample.

Table 3. Respondent Characteristics

Characteristics	Category	Frequency	Percentage
PKP period	< 2 years	13	13%
	2–5 years	40	40%
	6–10 years	29	29%
	> 10 years	18	18%
Turnover	< Rp. 4.8 billion	9	9%
	Rp4.8–10 billion	40	40%
	Rp10–50 billion	33	33%
	> Rp. 50 billion	18	18%
Education	SENIOR HIGH SCHOOL	32	32%
	D3	23	23%
	S1	35	35%
	S2	8	8%
	Other	2	2%

Descriptive statistics show that Tax Complexity has a mean of 3.85 and is in the high category. Government Transparency and Accountability has a mean of 3.47 and is also in the high category. Tax Ethics has a mean of 3.38, VAT Understanding 3.33, VAT Reporting Compliance 3.34, Tax Service Quality 3.28, and Tax Fines and Sanctions 3.23. These values indicate that respondents rate VAT complexity as relatively high, while understanding, perception of sanctions, ethics, service, and compliance are at medium to high levels.

Table 4. Descriptive Statistics of Research Variables

Variables	N	Mean	Std. Dev.
Tax Complexity (KP)	100	3.85	0.686
Understanding VAT (PPPN)	100	3.33	0.888
Tax Fines and Sanctions (DSP)	100	3.23	0.905
Tax Ethics (EP)	100	3.38	0.884
Government Transparency and Accountability (BP)	100	3.47	0.975
Tax Service Quality (KLP)	100	3.28	0.888
VAT Reporting Compliance (KPPN)	100	3.34	1,004

Validity and Reliability of Instruments

All statement items were declared valid because the calculated r value was greater than the r table of 0.1654 and its significance was <0.001. The Cronbach's Alpha value also showed very high internal consistency: KP 0.958; PPPN 0.951; DSP 0.967; EP 0.952; BP 0.963; KLP 0.943; and KPPN 0.966. Thus, all constructs are suitable for use in regression testing.

Classical Assumption Test and Model Feasibility

The results of the residual normality test with Kolmogorov-Smirnov yielded a significance of 0.200 > 0.05, so the residuals were declared normally distributed. All independent variables had a Tolerance above 0.10 and a VIF below 10. Tolerance was in the range of 0.944–0.994 and VIF in the range of 1.006–1.059, so the model did not show multicollinearity problems. The Durbin-Watson value of 1.841 was within the range of 1.5–2.5 used in the study to conclude the absence of autocorrelation. The ZPRED and ZRESID scatterplots did not show any particular pattern, so the model was declared not to experience heteroscedasticity.

Table 5. Summary of Classical Assumption Tests

Testing	Results	Conclusion
Normality	Kolmogorov-Smirnov Sig. = 0.200	Normal residual
Multicollinearity	Tolerance 0.944–0.994; VIF 1.006–1.059	There is no multicollinearity
Autocorrelation	Durbin-Watson = 1.841	No autocorrelation
Heteroscedasticity	Scatterplot without a specific pattern	There is no heteroscedasticity

The model correlation coefficient (R) is 0.865. The R Square value is 0.748 and the Adjusted R Square is 0.732. This means that 74.8% of the variation in VAT Reporting Compliance can be explained by Tax Complexity, VAT Understanding, Tax Fines and Sanctions, Tax Ethics, Government Transparency and Accountability, and Tax Service Quality, while the remaining 25.2% is explained by other factors outside the research model. The F test produces a calculated F of 45.997 with a significance of <0.001, so that simultaneously all independent variables have a significant influence on VAT Reporting Compliance.

Table 6. Multiple Linear Regression Results

Variables	B	Sig.	Interpretation
Constant	-4,165	< 0.001	-
Tax Complexity (KP)	-0.588	< 0.001	Significant negative
Understanding VAT (PPPN)	0.508	< 0.001	Significant positive
Tax Fines and Sanctions (DSP)	0.363	< 0.001	Significant positive
Tax Ethics (EP)	0.239	< 0.001	Significant positive
Government Transparency and Accountability (BP)	0.264	< 0.001	Significant positive
Tax Service Quality (KLP)	0.247	< 0.001	Significant positive

Partial results indicate that all research hypotheses are supported. Tax complexity has a negative and significant effect. Conversely, VAT understanding, tax fines and sanctions, tax ethics, government transparency and accountability, and tax service quality have a positive and significant effect on VAT reporting compliance. These findings suggest that compliance in the retail sector is formed through a combination of structural, cognitive, enforcement, moral, institutional, and service factors.

The Influence of Tax Complexity on VAT Reporting Compliance

Tax complexity has a negative and significant effect on VAT reporting compliance with a coefficient of B = -0.588 and a significance level of <0.001. This means that the higher the level of complexity of VAT regulations and procedures, the lower the level of reporting compliance. This result is consistent with the view that tax complexity increases administrative burdens and compliance costs. Richardson (2006) shows that complexity is related to non-compliance behavior, while Saad (2014) emphasizes the importance of the interaction between tax knowledge, complexity, and compliance.

In the retail industry, complexity has more pronounced consequences due to high transaction volumes, diverse product types, and the need for consistent record-keeping. Provisions regarding input and output taxes, due dates, tax invoices, reporting of VAT Periodic Tax Returns, and regulatory changes can increase taxpayers' cognitive burden. Cognitive Load Theory explains that when information and procedures exceed effective processing capacity, decision-making quality can decline (Sweller, 1988). In this context, reporting errors can arise not only from a reluctance to comply but also from difficulty understanding the system. These findings support H1 and indicate that simplifying regulations and procedures is a relevant strategy for improving compliance. Simplification does not mean reducing the substance of supervision, but rather reducing unnecessary complexity, clarifying instructions, and ensuring that regulatory changes are communicated consistently. In this study, complexity was the determinant with the largest absolute coefficient, indicating that structural pressures from the tax system have a strong relationship with variations in VAT reporting compliance in the retail sample.

The Influence of VAT Understanding on VAT Reporting Compliance

Understanding VAT has a positive and significant influence on VAT Reporting Compliance with B = 0.508 and a significance level of <0.001. These results indicate that increased taxpayer knowledge and technical skills are directly related to increased compliance. In the TPB, understanding strengthens perceived behavioral control because taxpayers feel more capable of carrying out their obligations. Ajzen (2011) explains that perceived behavioral control can influence both intentions and actual behavior when individuals have the necessary resources and capabilities. Knowledge-Based Theory also supports these findings, as knowledge is viewed as a strategic resource (Grant, 1996). In VAT, knowledge encompasses not only mastery of written regulations but also the ability to apply provisions to everyday transactions. Understanding VAT objects, input and output taxes, tax credits, reporting deadlines, tax return corrections, and underpayments and overpayments helps VAT-Registered Taxpayers (PKP) reduce administrative errors. Cnossen (2022) and Keen and Lockwood (2010) emphasize that VAT effectiveness is highly dependent on system design and the ability of business actors to understand its mechanisms. The research results support H6 and align with Lutfi et al. (2023), who identified tax knowledge as a crucial factor in VAT compliance in the retail sector. This implies that compliance improvement cannot be achieved solely through enforcement, but also through practical education relevant to retail transactions. Socialization needs to help taxpayers translate formal provisions into work procedures that can be consistently applied.

The Impact of Tax Fines and Sanctions on VAT Reporting Compliance

Tax fines and sanctions have a positive and significant effect on VAT reporting compliance with B = 0.363 and a significance level of <0.001. This result supports H2 and is consistent with Deterrence Theory. Within the framework of Allingham and Sandmo (1972), taxpayers consider the risk of detection and financial consequences when making compliance decisions. When sanctions are clearly understood and consistently applied, the expected cost of non-compliance increases, making compliant behavior more rational This finding is also consistent with the slippery slope framework. Kirchler et al. (2008) explain that power of authority can result in enforced compliance through audits, supervision, and penalties. In this study, respondents' perceptions of fines and sanctions were moderate, but their influence on compliance remained significant. This situation indicates that enforcement still plays a significant role in the retail environment, which involves routine transactions and periodic reporting obligations. However, the research findings do not place sanctions as the sole instrument for improving compliance. Coefficients for other variables related to understanding, government accountability, ethics, and service quality are also significant. Therefore, enforcement needs to be combined with regulatory certainty, education, transparency, and service. This approach aligns with the modern compliance framework, which positions authority and trust as complementary mechanisms.

The Influence of Tax Ethics on VAT Reporting Compliance

Tax ethics has a positive and significant influence on VAT reporting compliance with B = 0.239 and a significance level of <0.001. This finding supports H3 and indicates that compliance is not solely shaped by external pressure. Internal moral values, integrity, honesty, a sense of social responsibility, and personal commitment are part of the mechanism that encourages accurate VAT reporting. Tax morale provides an explanation for these results. Torgler (2005) views tax morality as an intrinsic motivation that drives individuals to fulfill their obligations even when the risk of oversight is not always high. Bobek et al. (2013) show that social norms also play a role in compliance behavior. In the context of retail companies, ethical values can influence recording practices, invoicing, transaction recognition, and reporting. Therefore, voluntary compliance requires an organizational culture that supports integrity, not just administrative procedures. The average Tax Ethics score of 3.38 indicates a moderately high level. The significant positive effect demonstrates that increasing moral awareness remains relevant as part of a compliance strategy. Tax authorities and businesses can reinforce the message that VAT compliance is both a legal obligation and a responsibility to public finances. In the research model, the moral dimension complements the effects of complexity, knowledge, and enforcement, providing a more comprehensive explanation of compliance.

The Influence of Government Transparency and Accountability on VAT Reporting Compliance

Government Transparency and Accountability have a positive and significant effect on VAT Reporting Compliance with B = 0.264 and a significance level of <0.001. This finding supports H4. Fiscal exchange theory explains that taxpayers are more willing to fulfill their obligations when they perceive that taxes are used for the public interest effectively and responsibly (Buchanan, 1976). Perceptions of tax benefits, public services, and government financial management can strengthen the legitimacy of the tax system. The mean value of this variable is 3.47 and is categorized as high, indicating a relatively positive perception from respondents. These results align with the argument that fiscal relations are not only built through payment obligations but also through trust in the use of revenue. Alm et al. (2017) emphasize the importance of institutional context in compliance studies, while Schächtele et al. (2023) show that information regarding public development outcomes can enhance compliance. Thus, budget transparency and expenditure accountability are directly relevant to taxpayer behavior. The research findings emphasize that transparency is not merely about published information but also relates to perceptions of benefits and accountability. When taxpayers perceive a connection between tax payments and public services, voluntary compliance can be strengthened. Consequently, the government needs to maintain clear public communication regarding revenue use, program outcomes, and expenditure accountability to strengthen fiscal relations with taxpayers.

The Influence of Tax Service Quality on VAT Reporting Compliance

Tax Service Quality has a positive and significant effect on VAT Reporting Compliance with B = 0.247 and a significance level of <0.001. This finding supports H5. Responsive services, user-friendly administration systems, competent officers, and good access to information can reduce taxpayers' obstacles in fulfilling their obligations. Gangl et al. (2015) showed that the relationship between authorities and taxpayers is related to the dynamics of power and trust, so the quality of service interactions can strengthen compliance. The average Tax Service Quality score of 3.28 is in the moderate category. This indicates room for improvement, particularly in system usability, response speed, and service consistency. Digitizing tax administration can help reduce friction as long as it provides clear and reliable access. Brown and Brudney (2001) emphasize the importance of quality government e-services in addressing public service barriers. In the context of VAT, stable digital services can facilitate invoicing, information access, and periodic reporting.

Overall, the research model shows that VAT reporting compliance is simultaneously influenced by structural (complexity), cognitive (understanding), enforcement (fines and sanctions), moral (ethics), institutional (transparency and accountability), and service (quality of tax services) factors. The R^2 value of 0.748 indicates strong explanatory power of the model in the research sample. These findings underscore the need for a comprehensive strategy: regulatory simplification, increased literacy, consistent enforcement, strengthening tax morale, transparent budget management, and easy and responsive services.

CONCLUSION

Based on the results of multiple linear regression, the study yielded six main conclusions. First, Tax Complexity has a negative and significant effect on VAT Reporting Compliance. The higher the complexity of regulations and procedures, the lower the compliance of retail industry players. Second, VAT Understanding has a positive and significant effect; increased literacy and understanding of VAT mechanisms directly increase reporting compliance. Third, Tax Fines and Sanctions have a positive and significant effect; the application of strict sanctions encourages compliance through a deterrent effect.

Fourth, Tax Ethics has a positive and significant effect on VAT Reporting Compliance. Moral awareness and taxpayers' internal values are among the factors shaping voluntary compliance. Fifth, Government Transparency and Accountability have a positive and significant effect. The perception that taxes are used effectively for the public interest increases the legitimacy of the tax system and encourages compliance. Sixth, Tax Service Quality has a positive and significant effect; easy, responsive, and efficient service improves VAT reporting compliance.

The model has an R Square of 0.748, meaning 74.8% of the variation in VAT Reporting Compliance can be explained by these six determinants. The findings indicate that improving compliance in the retail sector requires an integrated approach and not solely relying on sanctions. Complexity needs to be reduced, taxpayer understanding strengthened, enforcement applied consistently, compliance ethics developed, government transparency and accountability maintained, and tax services improved.

Implications and Suggestions

For the Directorate General of Taxes, the study recommends simplifying VAT regulations and reporting procedures to reduce administrative complexity. Continuous improvements in digital services and outreach are needed to enhance taxpayer understanding. Sanctions must be consistently applied to maintain a deterrent effect against non-compliance.

For the government, transparency and accountability in state spending management are essential to strengthen public trust in the tax system. Trust in the use of public funds can strengthen voluntary tax compliance. For retail players, improving understanding of VAT regulations and improving internal recording and administration systems are necessary to minimize reporting errors. Moral awareness in fulfilling tax obligations also needs to be strengthened as part of social responsibility.

Future research could add variables such as trust in tax authorities, perceptions of tax fairness, or factors such as the digitalization of the tax system. Expanding the number of respondents and research areas could also be considered to increase the generalizability of the results. These suggestions follow the limitations of the study's scope, which focused on 100 retail PKPs in the Pantura region of East Java and employed a cross-sectional design.

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