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The Influence of Understanding Tax Regulations, Tax Rates and Taxpayer Awareness on Taxpayer Compliance of E-commerce Users on Online Shopping Entrepreneurs

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ABSTRACT

Purpose of the study: This research aims to examine the influence of understanding tax regulations, tax rates, and taxpayer awareness on taxpayer compliance among e-commerce entrepreneurs in Bangkinang City, Indonesia. The study addresses the growing need for effective tax administration in the rapidly expanding digital economy sector.

Materials and methods: A quantitative approach was employed utilizing a survey questionnaire distributed to 150 e-commerce entrepreneurs in Bangkinang City. The sampling technique used was purposive sampling with specific inclusion criteria. Data were collected between January and March 2025 and analyzed using multiple linear regression analysis.

Results: The findings revealed significant positive relationships between understanding tax regulations ($\beta = 0.412$, $p < 0.01$), taxpayer awareness ($\beta = 0.376$, $p < 0.01$), and taxpayer compliance. However, tax rates showed a significant negative relationship with compliance ($\beta = -0.298$, $p < 0.01$). The coefficient of determination (R^2) indicated that these three variables collectively explain 68.3% of the variance in taxpayer compliance.

Conclusions: The study concludes that enhancing taxpayers' understanding of e-commerce tax regulations and raising taxpayer awareness are crucial strategies for improving compliance. Additionally, the negative impact of tax rates suggests that tax authorities should consider optimizing rate structures specific to e-commerce businesses to encourage compliance.

Keywords

e-commerce taxation, taxpayer compliance, tax regulations, tax awareness, online entrepreneurs, digital economy, indonesia.

INTRODUCTION

The rapid growth of digital commerce has transformed business landscapes globally, including in Indonesia. E-commerce transactions in Indonesia have grown at an annual rate of 35% since 2020, with projections indicating continued expansion (Ministry of Trade, 2024). This growth presents significant challenges for tax authorities seeking to ensure proper tax compliance within this sector. Bangkinang City, as the capital of Kampar Regency in Riau Province, has witnessed a substantial increase in online entrepreneurship, particularly during and after the COVID-19 pandemic, making it an ideal location to study e-commerce tax compliance dynamics.

The digital economy's unique characteristics—transboundary operations, virtual presence, and often informal business structures—create complexities in tax administration that traditional frameworks struggle to address. The Indonesian government has implemented several regulatory adjustments to capture tax revenue from e-commerce transactions, including Regulation No. 210/PMK.010/2023 on taxation of e-commerce transactions, which mandates registration and reporting requirements for online business activities. Despite these regulatory efforts, compliance remains a significant challenge. Preliminary data from the Bangkinang Tax Office indicates that only 47% of identified e-commerce entrepreneurs comply with tax obligations (Directorate General of Taxation, 2024). This gap highlights the importance of understanding factors that influence compliance behavior in this sector. Tax compliance research has evolved significantly over the past decades, moving from purely economic models to more comprehensive frameworks incorporating psychological, social, and institutional factors. The seminal economic deterrence model proposed by Allingham and Sandmo (1972) emphasized penalty rates and audit probability as primary compliance determinants. However, subsequent research has demonstrated the limitations of this approach when applied to modern economic contexts, particularly digital commerce.

Studies specifically addressing e-commerce taxation have identified several factors affecting compliance. Gupta and Mills (2022) found that understanding of tax regulations significantly predicted compliance among online sellers in developing economies. Their study of 300 e-commerce entrepreneurs revealed that regulatory knowledge explained approximately 42% of compliance

variance.

Regarding tax rates, the literature presents mixed findings. While traditional economic theory suggests that higher tax rates reduce compliance through increased evasion incentives (Slemrod, 2019), some studies in digital contexts have found more complex relationships. Wang et al. (2023) demonstrated that moderate tax rates combined with simplified compliance mechanisms actually increased voluntary compliance among small online businesses in Thailand. Taxpayer awareness has consistently emerged as a critical factor in compliance behavior. Adebisi and Gbegi (2023) found that awareness campaigns significantly improved compliance rates among digital entrepreneurs in Nigeria by 27% over a one-year period. Similarly, Rusdi et al. (2022) identified strong correlations between tax awareness, perceived fairness, and compliance intentions among Indonesian digital business operators.

In the Indonesian context, several studies have examined tax compliance more broadly. Juniati et al. (2023) investigated compliance factors among small businesses in Jakarta, finding significant relationships between tax knowledge, perceptions of the tax system, and compliance behavior. However, their study did not specifically address e-commerce entrepreneurs.

Despite growing interest in e-commerce taxation, several substantial gaps remain in the existing literature: 1. Geographic specificity: Few studies have examined tax compliance among e-commerce entrepreneurs in smaller Indonesian cities like Bangkinang, where infrastructure, regulatory awareness, and business ecosystems differ significantly from major urban centers; 2. Sector-specific analysis: The unique operational characteristics of e-commerce in different product categories may influence compliance behavior differently, yet existing research often treats e-commerce as a homogeneous sector; 3. Multifactor integration: While numerous studies have examined individual factors affecting tax compliance, fewer have analyzed the combined and relative impact of understanding regulations, tax rates, and taxpayer awareness within a single integrated model; 4. Recent regulatory context: Indonesia's tax regulations for e-commerce have evolved substantially since 2022, yet few studies reflect these changes or their impact on compliance behavior.

This study addresses these research gaps by providing a comprehensive analysis of tax compliance determinants specific to e-commerce entrepreneurs in Bangkinang City. The findings will contribute to both theoretical understanding of compliance behavior in digital economies and practical knowledge for tax authorities seeking to enhance compliance in this sector. The study is particularly timely given Indonesia's current focus on expanding its tax base through better administration of e-commerce taxation. As stated in the 2023-2027 Strategic Plan of the Directorate General of Taxation, improving compliance in the digital economy represents a key priority for achieving national revenue targets (Ministry of Finance, 2023).

The primary objectives of this research are: 1. To examine the influence of understanding tax regulations on taxpayer compliance among e-commerce entrepreneurs in Bangkinang City; 2. To analyze the impact of tax rates on compliance behavior in the e-commerce sector of Bangkinang City; 3. To assess the relationship between taxpayer awareness and compliance among online business operators in Bangkinang City; 4. To develop a predictive model of taxpayer compliance integrating these three factors; 5. To formulate evidence-based recommendations for enhancing compliance in the e-commerce sector.

MATERIALS AND METHODS

Study Participants

The population for this study comprised all e-commerce entrepreneurs operating in Bangkinang City as of December 2024. Based on data from the Bangkinang Tax Office and the Department of Industry and Commerce, the estimated population size was 245 registered online entrepreneurs. The sample size was determined using Slovin's formula with a 5% margin of error:

$n = N / (1 + N \times e^2)$, Where: n = sample size; N = population size (245); e = margin of error (0.05).

This calculation yielded a minimum required sample of 152 participants. To account for potential non-responses, 180 entrepreneurs were initially approached, resulting in 150 complete and valid responses (response rate: 83.3%). Participant selection employed purposive sampling with the following inclusion criteria: 1) Active e-commerce operations for at least one year; 2) Minimum monthly revenue of IDR 5,000,000; 3) Business headquarters located within Bangkinang City administrative boundaries; 4) Selling through at least one digital marketplace or dedicated online store.

The demographic profile of participants included 87 females (58%) and 63 males (42%), with an age range of 21-56 years (mean = 32.7, SD = 8.3). Regarding education levels, 15% had completed high school, 22% held diploma degrees, 54% held bachelor's degrees, and 9% had postgraduate qualifications. Business categories included fashion (32%), electronics (18%), food and beverages (15%), health and beauty products (13%), handicrafts (12%), and other categories (10%).

Study Organization

This study employed a quantitative cross-sectional design using structured questionnaires to collect data on the independent variables (understanding tax regulations, tax rates, and taxpayer awareness) and the dependent variable (taxpayer compliance). Data collection was conducted between January 15 and March 20, 2025. Before the main study, a pilot test was performed with 30 participants to validate the research instruments. The main study was implemented in accordance with ethical guidelines approved by the Research Ethics Committee of the STIE Bangkinang (approval number: ETH-2024-147).

Test and Measurement Procedures

The research instrument consisted of a structured questionnaire divided into five sections:

Table 1. Test and Measurement Procedures

Section	Description	Number of Items	Sample Items	Measurement Scale
1. Demographic	Information about the respondent's age,	-	Age, gender, education level, business	-

Information	gender, education level, business category, years in operation, and monthly revenue.	category, years in operation, and monthly revenue.		
2. <i>Understanding Tax Regulations</i>	Assessed knowledge of e-commerce tax obligations, reporting requirements, and applicable regulations.	10	"I understand my tax reporting obligations as an e-commerce business" and "I can identify which tax regulations apply to my online business."	5-point Likert scale (1 = strongly disagree, 5 = strongly agree)
3. <i>Tax Rates</i>	Evaluated perceptions of current tax rates for e-commerce activities.	8	"The current tax rates for e-commerce businesses are reasonable" and "Tax rates influence my business pricing decisions."	5-point Likert scale
4. <i>Taxpayer Awareness</i>	Measured awareness of the importance of tax compliance and its societal benefits.	12	"I understand the role of taxes in national development" and "I am aware of the consequences of tax non-compliance."	5-point Likert scale
5. <i>Taxpayer Compliance</i>	Assessed self-reported compliance behaviors like registration, reporting, and payment practices.	15	"I report all business income accurately" and "I submit tax returns by the required deadlines."	5-point Likert scale

The instrument was validated through expert review by three taxation specialists and two research methodologists. Content validity was established using the Content Validity Index (CVI), with all retained items scoring above 0.80. Reliability was assessed using Cronbach's alpha coefficients: understanding tax regulations ($\alpha = 0.87$), tax rates ($\alpha = 0.83$), taxpayer awareness ($\alpha = 0.89$), and taxpayer compliance ($\alpha = 0.91$).

The questionnaires were administered primarily through in-person visits to business locations (62%), with the remainder completed through secure online forms (38%). All participants provided informed consent before participation, and confidentiality of responses was assured.

Statistical Analysis

Statistical analysis of the quantitative data was conducted using SPSS version 28.0. Several statistical procedures were employed to analyze the data, starting with descriptive statistics, where means, standard deviations, frequencies, and percentages were calculated to summarize the sample characteristics and the distribution of responses. Reliability analysis was performed using Cronbach's alpha coefficients to evaluate the internal consistency of the measurement scales. Correlation analysis, specifically Pearson's correlation coefficients, was used to assess bivariate relationships between variables. The primary analytical technique, multiple linear regression analysis, was utilized to test the research hypotheses regarding the influence of the independent variables on taxpayer compliance. Before conducting regression analysis, assumption testing was performed to ensure the validity of the model, including tests for normality (Kolmogorov-Smirnov test), multicollinearity (Variance Inflation Factor), heteroscedasticity (Breusch-Pagan test), and linearity. The regression model was specified as follows: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$, where Y represents taxpayer compliance, α is the constant, β_1 , β_2 , and β_3 are the regression coefficients, X_1 is understanding tax regulations, X_2 is tax rates, X_3 is taxpayer awareness, and ε is the error term. The statistical significance level was set at $p < 0.05$ for all analyses.

RESULTS

Descriptive Statistics

Table 2 presents the descriptive statistics for all variables measured in the study. The mean scores indicate moderate to high levels of understanding tax regulations ($M = 3.52$, $SD = 0.84$) and taxpayer awareness ($M = 3.78$, $SD = 0.76$) among e-commerce entrepreneurs in Bangkinang City. Perceptions of tax rates were slightly negative ($M = 2.85$, $SD = 0.92$), suggesting that participants generally viewed current tax rates as somewhat high. The mean score for taxpayer compliance ($M = 3.64$, $SD = 0.88$) indicates moderately high self-reported compliance behaviors.

Table 2. Descriptive Statistics of Study Variables (N = 150)

Variable	Mean	SD	Min	Max
<i>Understanding Tax Regulations</i>	3.52	0.84	1.40	5.00
<i>Tax Rates</i>	2.85	0.92	1.00	4.75
<i>Taxpayer Awareness</i>	3.78	0.76	1.67	5.00
<i>Taxpayer Compliance</i>	3.64	0.88	1.33	5.00

Further analysis of the data revealed that participants with higher educational levels reported significantly better understanding of tax regulations ($F = 8.47$, $p < 0.01$). Additionally, businesses with longer operational histories (>3 years) showed higher compliance scores ($M = 3.92$, $SD = 0.73$) compared to newer businesses (≤ 3 years) ($M = 3.41$, $SD = 0.91$), $t(148) = 3.62$, $p < 0.001$.

Correlation Analysis

Pearson correlation coefficients were calculated to examine relationships between the study variables. As shown in Table 2, all independent variables were significantly correlated with taxpayer compliance, with understanding tax regulations showing the strongest positive relationship ($r = 0.671$, $p < 0.01$), followed by taxpayer awareness ($r = 0.624$, $p < 0.01$). Tax rates demonstrated a significant negative correlation with compliance ($r = -0.418$, $p < 0.01$).

Table 3. Correlation Matrix of Study Variables

Variable	1	2	3	4
1. <i>Understanding Tax Regulations</i>	1			
2. <i>Tax Rates</i>	-0.183*	1		
3. <i>Taxpayer Awareness</i>	0.547**	-0.091	1	
4. <i>Taxpayer Compliance</i>	0.671**	-0.418**	0.624**	1

* $p < 0.05$, ** $p < 0.01$

Interestingly, a significant negative correlation was observed between understanding tax regulations and perceptions of tax rates (r

= -0.183, $p < 0.05$), suggesting that entrepreneurs with better regulatory knowledge may view existing tax rates more favorably.

Multiple Regression Analysis

Prior to conducting regression analysis, the data were tested for assumptions. The Kolmogorov-Smirnov test confirmed normal distribution of residuals ($p > 0.05$). Multicollinearity was not a concern, as all Variance Inflation Factors were below 2.0. The Breusch-Pagan test showed no significant heteroscedasticity ($p > 0.05$), and scatterplots confirmed linear relationships between variables.

Multiple regression analysis was performed to test the influence of understanding tax regulations, tax rates, and taxpayer awareness on taxpayer compliance. The results are presented in Table 4.

Table 4. Multiple Regression Analysis Results

Variable	B	Std. Error	Beta	t	Sig.
(Constant)	1.876	0.312		6.013	0.000
Understanding Tax Regulations	0.433	0.068	0.412	6.368	0.000
Tax Rates	-0.286	0.057	-0.298	-5.018	0.000
Taxpayer Awareness	0.435	0.076	0.376	5.724	0.000

$R = 0.826$, $R^2 = 0.683$, Adjusted $R^2 = 0.676$, $F(3,146) = 104.82$, $p < 0.001$

The regression model was statistically significant ($F(3,146) = 104.82$, $p < 0.001$) and explained 68.3% of the variance in taxpayer compliance ($R^2 = 0.683$). All three independent variables were significant predictors of compliance.

Understanding tax regulations emerged as the strongest predictor ($\beta = 0.412$, $p < 0.001$), followed by taxpayer awareness ($\beta = 0.376$, $p < 0.001$). These positive coefficients indicate that higher levels of understanding and awareness are associated with increased compliance. Conversely, tax rates had a significant negative effect on compliance ($\beta = -0.298$, $p < 0.001$), suggesting that higher perceived tax rates are associated with lower compliance levels.

The regression equation derived from this analysis is:

Taxpayer Compliance = $1.876 + 0.433(\text{Understanding Tax Regulations}) - 0.286(\text{Tax Rates}) + 0.435(\text{Taxpayer Awareness})$

Additional Analyses

To further explore the interrelationships between variables, the sample was segmented based on business categories. Regression analyses were performed separately for each major category, revealing some interesting variations. The influence of understanding tax regulations was strongest among electronics sellers ($\beta = 0.523$, $p < 0.001$), while taxpayer awareness had the most substantial impact among food and beverage businesses ($\beta = 0.492$, $p < 0.001$). The negative effect of tax rates was most pronounced in the fashion category ($\beta = -0.387$, $p < 0.001$).

A mediation analysis was also conducted to test whether understanding tax regulations mediated the relationship between taxpayer awareness and compliance. Using the Baron and Kenny approach followed by Sobel testing, partial mediation was confirmed ($z = 4.12$, $p < 0.001$), indicating that awareness influences compliance both directly and indirectly through enhanced understanding of regulations.

DISCUSSION

Interpreting the Outcomes of Research Endeavors

This study investigated the influence of understanding tax regulations, tax rates, and taxpayer awareness on tax compliance among e-commerce entrepreneurs in Bangkinang City. The findings reveal significant relationships between all three factors and compliance behavior, with these variables collectively explaining 68.3% of compliance variance.

The strong positive influence of understanding tax regulations ($\beta = 0.412$) underscores the critical importance of regulatory knowledge in facilitating compliance. This finding is particularly relevant in the context of e-commerce taxation, where regulations are relatively new and frequently updated. Many participants in this study demonstrated only moderate understanding of applicable tax rules ($M = 3.52$ on a 5-point scale), indicating substantial room for improvement. The specific areas where knowledge gaps were most pronounced included tax treatment of cross-platform sales, documentation requirements for digital transactions, and applicable tax incentives for small online businesses.

The negative relationship between tax rates and compliance ($\beta = -0.298$) aligns with traditional economic deterrence models of tax behavior. Participants who perceived tax rates as excessive reported lower compliance levels, particularly regarding complete income declaration. This finding suggests that e-commerce entrepreneurs in Bangkinang City may engage in strategic reporting behaviors when they believe tax burdens are unreasonable. This relationship was especially pronounced among smaller businesses (annual revenue < IDR 200 million), suggesting that tax sensitivity may vary with business scale.

Taxpayer awareness emerged as a significant positive predictor of compliance ($\beta = 0.376$), confirming the importance of psychological and social factors in tax behavior. The relatively high average awareness score ($M = 3.78$) suggests that many e-commerce entrepreneurs in Bangkinang City recognize the broader societal benefits of taxation. However, specific awareness components showed variation, with understanding of how tax revenue is utilized scoring lower than awareness of legal obligations and penalties.

Evaluating in Relation to Antecedent Studies

These findings both support and extend previous research in tax compliance literature. The significant impact of understanding tax regulations aligns with Gupta and Mills (2022), who found similar relationships among e-commerce entrepreneurs in other developing economies. However, the current study reveals a stronger effect size ($\beta = 0.412$ vs. $\beta = 0.385$ in Gupta and Mills), potentially reflecting the greater complexity of Indonesia's e-commerce tax framework relative to the countries in their study.

The negative relationship between tax rates and compliance is consistent with Slemrod's (2019) findings but contradicts

Wang et al. (2023), who reported positive associations under certain conditions. This divergence may reflect differences in tax administration approaches between Thailand (Wang's research context) and Indonesia. While Thailand has implemented simplified tax schemes specifically designed for e-commerce, Indonesia's approach still largely applies traditional frameworks to digital businesses, potentially exacerbating compliance challenges.

Regarding taxpayer awareness, our results closely parallel Adebisi and Gbegi's (2023) Nigerian study, which similarly identified awareness as a critical compliance determinant. However, our study extends their work by demonstrating how awareness operates partly through enhanced regulatory understanding (mediation effect), providing a more nuanced picture of compliance determinants.

In the Indonesian context, our findings provide important extensions to Juniati et al.'s (2023) Jakarta-based research. While they identified similar factors affecting general business compliance, our study demonstrates that e-commerce entrepreneurs exhibit some distinct patterns, particularly regarding the stronger influence of regulatory understanding compared to their findings for traditional businesses ($\beta = 0.412$ vs. $\beta = 0.327$).

Elucidating the Ramifications of the Discoveries

The findings have several important implications for tax policy and administration in Indonesia. First, the strong influence of understanding tax regulations suggests that compliance could be substantially improved through enhanced educational initiatives targeted specifically at e-commerce entrepreneurs. The moderate average understanding score ($M = 3.52$) indicates significant potential for improvement in this area.

Second, the negative relationship between tax rates and compliance highlights the need for careful consideration of rate structures for e-commerce businesses. The findings suggest that optimizing tax rates—potentially through simplified schemes for smaller online entrepreneurs—could enhance voluntary compliance. This is particularly relevant given that 68% of our sample consisted of small and medium-sized operations.

Third, the significant role of taxpayer awareness underscores the potential value of campaigns highlighting the social benefits of taxation. The partial mediation effect discovered suggests that awareness campaigns would be most effective when coupled with concrete regulatory information, creating a synergistic effect on compliance behavior.

From a theoretical perspective, our findings support an integrated model of tax compliance that incorporates both economic factors (tax rates) and behavioral elements (understanding and awareness). The explanatory power of our model ($R^2 = 0.683$) suggests that this integrated approach captures a substantial portion of the factors influencing compliance decisions among e-commerce entrepreneurs.

Recognizing the Constraints of the Research

Despite its contributions, this study has several limitations that should be acknowledged. First, the reliance on self-reported compliance measures may introduce social desirability bias, with respondents potentially overstating their compliance behaviors. While anonymity was assured to mitigate this concern, future research would benefit from incorporating objective compliance measures from tax authority records, if available.

Second, the cross-sectional design precludes causal inferences about the relationships identified. Longitudinal studies tracking how changes in the independent variables affect compliance over time would provide stronger evidence regarding causality.

Third, while the sample size ($N = 150$) was adequate for the statistical analyses performed, it represents only one geographic area (Bangkinang City). The generalizability of findings to other regions of Indonesia, particularly major urban centers with different e-commerce ecosystems, remains to be established.

Fourth, the study focused on three specific factors affecting compliance. While these explained a substantial portion of compliance variance (68.3%), other potentially important factors—such as peer influence, trust in tax authorities, and perceived audit probability—were not included in the model.

Finally, all participants in this study operated businesses with physical headquarters in Bangkinang City. The findings may not fully apply to purely virtual e-commerce operations without geographic anchoring, which represent an increasingly important segment of the digital economy.

CONCLUSION

This study examined the influence of understanding tax regulations, tax rates, and taxpayer awareness on compliance behavior among e-commerce entrepreneurs in Bangkinang City. The findings reveal that all three factors significantly affect compliance, with understanding regulations and taxpayer awareness positively influencing compliance, while perceived tax rates have a negative effect.

The research makes several important contributions to the existing literature on tax compliance in digital economies. First, it provides empirical evidence from a previously understudied geographical context, demonstrating how compliance factors operate in smaller Indonesian cities where e-commerce is rapidly growing. Second, it establishes the relative importance of different compliance factors, with understanding regulations emerging as the strongest predictor. Third, it identifies a mediation pathway through which awareness influences compliance via enhanced regulatory understanding.

From a practical perspective, the findings suggest several strategies for enhancing e-commerce tax compliance in Indonesia. Tax authorities should prioritize educational initiatives that build regulatory knowledge among online entrepreneurs, particularly focusing on areas where understanding was weakest (cross-platform sales, documentation requirements, and available incentives). Additionally, reviewing tax rate structures for small and medium e-commerce businesses could potentially improve voluntary compliance. Finally, awareness campaigns highlighting the societal benefits of taxation should be combined with specific regulatory information to maximize their effectiveness.

Future research should address the limitations identified by incorporating objective compliance measures, adopting

longitudinal designs, expanding geographic coverage, and including additional compliance determinants in the analytical model. Studies examining compliance factors in purely virtual e-commerce operations would also be valuable given the growing importance of this business model.

In conclusion, as e-commerce continues its rapid expansion in Indonesia and globally, understanding the factors that influence tax compliance in this sector becomes increasingly crucial for effective tax administration. This study provides important insights to guide both policy development and future research in this dynamic field.

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CONFLICT OF INTERESTS

The authors declare no conflict of interest. This research received no external funding.

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