

# **LEVEL OF FINANCIAL LITERACY, TAXPAYER PERCEPTION, AND IMPLEMENTATION OF THE DIGITAL TAX SYSTEM “CORETAX” IN REDUCING TAX AVOIDANCE PRACTICES (A CASE STUDY OF 100 MSMEs IN BALI PROVINCE)**

**Gede Teguh Prasetya Muttiwijaya**

Economics Faculty, Universitas Pendidikan Ganesha, Indoensia  
(gede.teguh.prasetya@undiksha.ac.id)

**Rikky Rundu Padang**

Economics Faculty, Universitas Pendidikan Ganesha, Indonesia  
(rikky.rundu@undiksha.ac.id)

**I Dewa Gede Anom Jambe Adnyana**

Economics Faculty, Universitas Pendidikan Ganesha, Indoensia  
(idg.anom.jambe@undiksha.ac.id)

**I Made Pradana Adiputra**

Economics Faculty, Universitas Pendidikan Ganesha, Indoensia  
(adiputra@undiksha.ac.id)

**Rindhi Marverissa**

Economics Faculty, Universitas Pendidikan Ganesha, Indoensia  
(rindhi@undiksha.ac.id)

## **ABSTRACT**

CoreTax, launched by Indonesia’s Directorate General of Taxes in 2022 as part of the third reform phase, digitises tax services to improve efficiency, transparency, and integration. Its success depends not only on robust technology but also on taxpayers’ financial literacy and perceptions of the platform. Differences in these factors shape understanding, trust, and, ultimately, tax-avoidance behaviour. Survey data from 100 Bali-based MSMEs analysed with Partial Least Squares Structural Equation Modelling reveal that higher literacy and positive perceptions significantly boost CoreTax use, which in turn reduces tax avoidance, explaining 47 % of its variance. The results underline the need for fiscal-education initiatives and user-centred design enhancements so that CoreTax becomes a catalyst for sustained compliance among MSMEs.

**Keywords:** financial literacy, taxpayer perception, coretax, tax avoidance, msme

## INTRODUCTION

Although micro, small, and medium-sized enterprises (MSMEs) generate more than 60 % of Bali's gross regional domestic product (Badan Pusat Statistik [BPS] Provinsi Bali, 2023), fewer than 4 % of Indonesia's 64 million MSMEs hold a tax-payer identification number (NPWP) and even fewer file or pay on time (Ministry of Cooperatives and SMEs, 2024), translating into annual revenue losses measured in billions of US dollars (Hanlon & Heitzman, 2010). The tax reform agenda initiated by the Directorate General of Taxes (DGT) prioritizes increasing revenues and reducing tax avoidance, as state losses due to avoidance are estimated in the billions of dollars annually (Hanlon & Heitzman, 2010). In 2022, the DGT launched CoreTax, an integrated digital tax administration system designed to enhance transparency, efficiency, and accuracy of taxpayer reporting (Directorate General of Taxes, 2022). With web- and mobile-based interfaces, CoreTax integrates modules for registration, reporting, payment, and real-time auditing (Oliveira & Martins, 2011). Adoption success hinges on taxpayers' financial literacy—from reading basic financial statements to independently calculating tax liabilities—since low literacy impairs the ability to understand and utilize new system features (Lusardi & Mitchell, 2014; Remund, 2010; Huston, 2010). Likewise, perceptions of ease of use, data security, and service efficiency shape trust and the intention to switch from manual to digital platforms (Davis, 1989; Gefen et al., 2003). Meanwhile, micro, small, and medium enterprises (MSMEs) form the backbone of Bali's economy—contributing over 60% of regional GDP and absorbing most local labor (BPS Bali Province, 2023). Their small scale, informality, and heterogeneous fiscal literacy make them vulnerable to tax avoidance—whether deliberate or due to lack of knowledge (Slemrod, 2007). Most CoreTax studies focus on large firms or general qualitative assessments; empirical evidence on its effectiveness for MSMEs remains limited.

### 1. Problem Identification

The problem formulation studied in this study is: 1) How do financial literacy and taxpayer perception affect CoreTax implementation among MSMEs in Bali?, 2) How does CoreTax implementation influence tax avoidance tendencies among Bali's MSMEs?, 3) What is the mediating role of CoreTax implementation between financial literacy/taxpayer perception and tax avoidance tendencies?

### 2. Research Objectives

The following are the research objectives to be achieved, including: 1) Analyzing the effect of financial literacy and taxpayer perception on CoreTax implementation among MSMEs in Bali. 2) examine the impact of CoreTax implementation on tax avoidance tendencies among Bali's MSMEs. 3) identify the mediating role of CoreTax implementation in the relationship between financial literacy/taxpayer perception and tax avoidance tendencies

## LITERATURE REVIEW

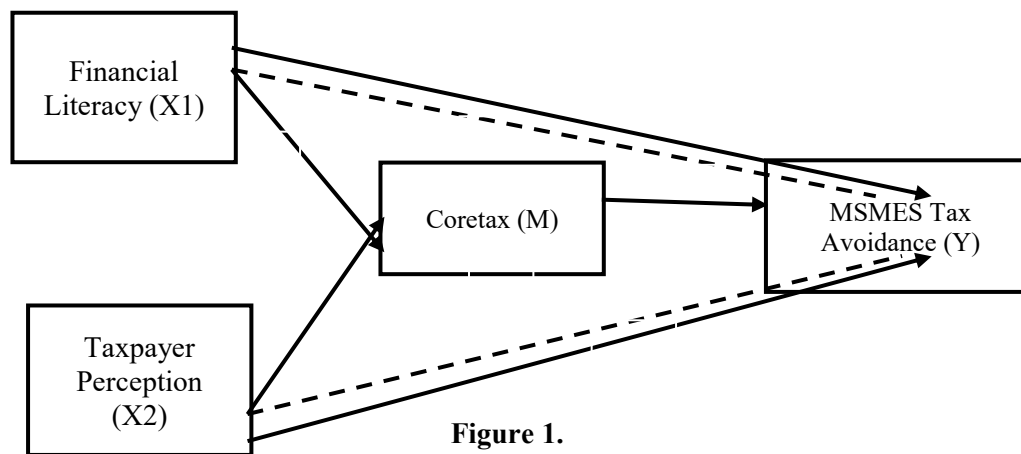
Although prior studies consistently show that financial literacy equips taxpayers with the cognitive tools to recognise both the benefits and risks of compliance (Lusardi & Mitchell, 2014; Remund, 2010) and that favourable perceptions of system ease of use and security drive adoption intentions in line with the Technology Acceptance Model (Davis, 1989; Gefen et al., 2003), most of this work treats these constructs in isolation, providing only fragmented evidence of how they interact to influence real-world behaviour. Integrating the Theory of Planned Behavior (Ajzen, 1991) with Agency Theory (Jensen & Meckling, 1976)

suggests a more cohesive mechanism: literacy and positive perceptions foster the attitudes and perceived control that strengthen compliance intentions, while CoreTax's real-time data integration mitigates information asymmetry, narrowing opportunities for avoidance (Hanlon & Heitzman, 2010). The Knowledge–Attitude–Behavior framework (Noar & Zimmerman, 2005) further implies a sequential pathway in which fiscal knowledge informs attitudes, which then translate into compliant actions such as adopting digital platforms. Yet empirical evidence largely confined to e-filing or broad qualitative assessments (Triyono, 2019; Sari & Setiawan, 2021; Purnomo & Lestari, 2023) offers mixed findings on whether these relationships hold for MSMEs, whose heterogeneous literacy and informal practices make them especially susceptible to both inadvertent error and deliberate evasion. By testing how literacy and perception jointly shape CoreTax uptake and, in turn, reduce tax-avoidance propensity among Bali's MSMEs, the present study not only reconciles these disparate theoretical strands but also fills a critical empirical gap, providing a more integrated explanation of digital-tax adoption in a sector pivotal to regional revenue yet chronically under-researched.

## METHOD, DATA, AND ANALYSIS

### Method (Research Design)

This explanatory quantitative study uses a cross-sectional survey to test hypotheses on the effects of financial literacy and taxpayer perception on CoreTax implementation, and its impact on tax avoidance. The conceptual model is evaluated via PLS-SEM to capture direct and indirect relationships.



**Figure 1.**  
**Conceptual Framework**

(Source; Processed by The Author, 2025)

### Data (Population and Sample)

The population comprises all registered MSME taxpayers in Bali who have filed at least once via CoreTax. Inclusion criteria: valid tax registration, minimum one CoreTax filing, willingness to complete the questionnaire. Purposive sampling yielded 100 MSMEs, sufficient for PLS-SEM estimation (Hair et al., 2019). Respondents (owners or finance managers) received an information sheet outlining study aims, data-protection measures, and their right to withdraw; electronic informed-consent was required before accessing the instrument, and no identifying information was stored.

## Analysis (Data Collection and Data Analysis)

Data were collected through a structured Likert-scale (1–5) questionnaire, distributed online and offline in collaboration with the Bali MSME Office. A 20-firm pretest ensured instrument clarity. Validity and reliability were assessed via outer loadings, AVE, Cronbach's  $\alpha$ , and Composite Reliability (Fornell & Larcker, 1981; Hair et al., 2019). Analysis employed SmartPLS: first measurement model evaluation (convergent/discriminant validity), then structural model assessment—path coefficients, bootstrapped t-statistics (5,000 resamples),  $R^2$ ,  $f^2$ —followed by mediation testing (Preacher & Hayes, 2008).

Table 1. Questionnaire Indicators

Variable	Code–Indicator
<b>1. Financial Literacy (X<sub>1</sub>)</b>	X1.1 Understanding of financial and tax terminology
	X1.2 Ability to read simple financial statements
	X1.3 Ability to calculate tax obligations independently
<b>2. Taxpayer Perception (X<sub>2</sub>)</b>	X2.1 Ease of using the CoreTax system
	X2.2 Trust in data security within CoreTax
	X2.3 Perception of CoreTax service efficiency and speed
<b>3. CoreTax Implementation (M)</b>	M1 Ease of operation and navigation of the CoreTax interface
	M2 Integration of tax data (consistency and accuracy of information)
	M3 Security and privacy of taxpayer data in CoreTax
<b>4. MSMEs Tax Avoidance (Y)</b>	Y1 Intention to seek legal loopholes to reduce tax burden
	Y2 Use of consultants for tax-saving strategies
	Y3 Selection of legal transaction schemes that minimize tax burden

## RESULT AND DISCUSSION

### Data Analysis Results

#### Descriptive Statistics

Table 2. Descriptive Statistics Results

Characteristics	Amount (n=100)	Percentage (%)
<b>Years in Operation</b>		
< 5 Years	61	61,0%
5–10 Years	34	34,0%
> 10 Years	5	5,0%
<b>Business Sector</b>		
Trade	40	40,0%
Fashion	25	25,0%
Handicraft	20	20,0%
Service	15	15,0%

#### Measurement Model (Validity and Reliability Test)

According to Hair et al. (2017) that the validity and reliability test must meet the requirements and criteria. All indicators in the questionnaire show validity and reliability results that meet the requirement. Collectively, the measurement statistics demonstrate that every construct—Level of Financial Literacy,

Taxpayer Perception, CoreTax Implementation, and Tax Avoidance—exhibits excellent psychometric quality: each Average Variance Extracted (0.79–0.84) surpasses the 0.50 criterion for convergent validity, while Composite Reliability values (0.85–0.89) and Cronbach’s  $\alpha$  coefficients (0.76–0.80) all exceed the recommended 0.70 threshold, indicating strong internal consistency and confirming that the instrument provides a robust, reliable, and valid basis for further structural-model analyses

Table 3. Validity and Reliability Test Results

Variable	AVE	CR	Cronbach’s Alpha
Level of Financial Literacy	0,82	0,88	0,78
Taxpayer Perception	0,79	0,85	0,76
CoreTax Implementation	0,84	0,89	0,80
MSMEs Tax Avoidance	0,80	0,87	0,79

#### Structural Model (Path Analysis)

Table 4. Hypothesis Test Results

Hypothesis	Path Coefficient ( $\beta$ )	T-Statistic	P-Value	Description
H1: Financial Literacy → CoreTax Implementation	0.45	5.12	< 0.001	Significant
H2: Perception → CoreTax Implementation	0.38	4.03	< 0.001	Significant
H3: CoreTax Implementation → MSMEs Tax Avoidance	−0.50	6.21	< 0.001	Significant
H4: Financial Literacy → MSMEs Tax Avoidance (direct)	−0.30	3.75	< 0.001	Significant
H5: Perception → MSMEs Tax Avoidance (direct)	−0.25	3.20	0.002	Significant
H6: Financial Literacy → MSMEs Tax Avoidance (via CoreTax)	−0.20	4.56	< 0.001	Partial Mediation
H7: Perception → MSMEs Tax Avoidance (via CoreTax)	−0.19	3.98	< 0.001	Partial Mediation

#### Mediation Test

Bootstrapping results indicate that CoreTax implementation partially mediates the effects of financial literacy and perception on tax avoidance (indirect  $\beta = -0.20$  and  $-0.19$ ;  $p < 0.001$ ), while direct paths remain significant. Thus, CoreTax strengthens the negative impact of literacy and perception on tax avoidance among Bali’s MSMEs.

## DISCUSSION

The results demonstrate that higher financial literacy significantly boosts CoreTax adoption among Bali's MSMEs, which in turn curbs tax-avoidance tendencies echoing evidence that literacy enhances financial self-efficacy (Pratiwi & Krisnawati, 2020) and that literacy coupled with perceived security accelerates uptake of digital payments (Kumalasari, Riduwan, & Sutanto, 2024). Favourable perceptions of CoreTax's reliability and ease of use likewise reinforce compliance intentions, in line with e-filing findings by Chairani and Farina (2021), while mediation analysis confirms CoreTax's bridging role between literacy, perception, and compliant behaviour paralleling the e-commerce mediation model proposed by Maghfiroh and Biduri (2022). Nevertheless, several limitations temper these conclusions: (a) the purposive sample of 100 MSMEs from a single province constrains external validity, suggesting replication with larger, stratified samples across regions and sectors (Hair et al., 2019); (b) the cross-sectional design limits causal inference, highlighting the need for longitudinal or experimental studies to establish temporal precedence and rule out reverse causality (Maxwell & Cole, 2007); (c) reliance on self-reported data may inflate common-method variance despite procedural controls, leaving residual bias possible (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003); and (d) tax-avoidance was measured through behavioural intentions rather than audited outcomes, so integrating administrative tax records would strengthen future robustness. Acknowledging these constraints provides a balanced interpretation and underscores avenues for deeper investigation into digital-tax adoption dynamics among MSMEs

## **CONCLUSION**

Financial literacy and taxpayer perception play a crucial role in supporting the successful adoption of CoreTax among Bali's MSMEs, making the implementation of this digital tax system demonstrably effective in suppressing tendencies toward tax avoidance. CoreTax functions as a mediator that links taxpayers' understanding and attitudes to fiscal compliance behavior, so that optimal system adoption significantly reduces the intention to engage in tax avoidance. The applied structural model successfully explains substantial variability in both CoreTax implementation and tax avoidance tendencies, affirming the validity and predictive power of this research. These findings underscore the importance of synergy between enhancing financial literacy, fostering positive perceptions of CoreTax, and refining system features so that CoreTax can contribute maximally to building sustainable tax compliance in the MSME sector.

## **IMPLICATION/LIMITATION AND SUGGESTIONS**

This study emphasizes that efforts to enhance financial literacy and foster positive perceptions of CoreTax should be policy priorities for the Directorate General of Taxes, particularly through targeted socialization and training programs for MSMEs. By strengthening fundamental tax knowledge and user trust in CoreTax's security features and efficiency, tax authorities can drive broader adoption so that the system functions optimally as an automatic mechanism to curb MSMEs' motivations for tax avoidance. Furthermore, refining the user interface and adding real-time notification modules will increase transparency in the taxation process and reduce discretionary gaps previously exploited for avoidance. For future research, longitudinal studies are recommended to evaluate the impact of CoreTax implementation over time, extend the investigation to various sectors and geographic regions, and integrate contextual

variables such as digital literacy and demographic characteristics as well as in-depth interviews to uncover qualitative barriers to system adoption.

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