





# “The influence of trust in the government, perceived fairness, and tax morale on taxpayer compliance: Implications for budget formation”

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# THE INFLUENCE OF TRUST IN THE GOVERNMENT, PERCEIVED FAIRNESS, AND TAX MORALE ON TAXPAYER COMPLIANCE: IMPLICATIONS FOR BUDGET FORMATION

## Abstract

This study investigates the factors influencing taxpayer compliance, using tax morale as a mediating variable. A quantitative approach was employed, utilizing primary data gathered through questionnaires. The sample consisted of 280 small and medium-sized enterprise (SME) taxpayers from Surabaya, Sidoarjo, and Mojokerto, Indonesia, who were interviewed either in person or via online surveys. Multiple linear regression and path analysis were conducted to evaluate the data. The findings reveal that perceived fairness and trust in the government significantly enhance tax morale, which, in turn, positively influences taxpayer compliance. Furthermore, tax morale was found to mediate the relationship between both perceived fairness and government trust with taxpayer compliance, demonstrating the importance of psychological factors in fostering tax adherence. However, the study found that the taxpayer environment and religiosity, when considered as control variables, did not have a significant impact on compliance. This indicates that while personal perceptions and trust are influential, external social factors and religious beliefs are less critical. These insights emphasize that when the issue of equity and trust in government prevails, compliance will increase among SME taxpayers. These findings suggest that by prioritizing taxpayer trust and fairness, policymakers can enhance budget predictability and efficiency in public resource distribution.

## Keywords

budget formation, government, taxpayer compliance, tax morale

## JEL Classification

H23, H24, L78

## INTRODUCTION

Taxpayers' compliance is epitomized by observing the regulations concerning tax, timely submitting, correct calculations, and avoiding tax offenses. A core factor that assures efficiency in this regard is the taxpayer's level of trust in the fairness and transparency of the government. Mebratu (2024), BalasoIU et al. (2023), and Gomez et al. (2023) argue that effective tax compliance plays a dual role by enhancing government revenue collection and fostering a well-organized budget formation and allocation, which is essential for sustainable public spending. For instance, compliance efforts are often supported by initiatives that raise tax awareness (Acconcia et al., 2022). However, some taxpayers may prefer to avoid or evade taxes under certain circumstances when government policy is regarded as unstable or inequitable (Castañeda, 2024).

Some of the recent alterations in Indonesian tax policy, such as the Omnibus Law on Job Creation, have put taxpayers in a situation where



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they have to keep abreast of the changes continuously, and this could affect their compliance behavior (Tjaraka & Kusumawardhani, 2024; Falsetta et al., 2024). The scandals within the tax administration recently brought corrupt practices into the light, causing impairment to trust and creating challenges for tax morale as well as tax compliance efforts. Exploring the underlying factors, such as perceived fairness and government trust, is essential for formulating policies that can ensure taxpayer compliance among SMEs, ultimately leading to efficient budget formation and allocation.

## 1. LITERATURE REVIEW

Taxpayer compliance is influenced by economic, psychological, social, and personal factors. Low compliance is often tied to low tax morale, defined as the intrinsic motivation to fulfill tax obligations for public benefit. This motivation stems from a moral duty to contribute to societal welfare. Two key determinants of tax morale are perceived fairness and trust in government (Corona, 2024). Perceived fairness refers to the belief that tax regulations are equitable, especially regarding tax deductions. While some studies find that fairness positively affects tax morale, others report no significant effect (Adeline & Karina, 2022; Sari & Mashuri, 2022). Trust in government, closely linked to political stability, regulatory quality, and anti-corruption efforts, also influences tax morale (Nyarkpoh et al., 2023). Studies generally show a positive relationship between government trust and tax morale (Tambun & Haryati, 2022; Pacaldo & Ferrer, 2020), although some research demonstrates no effect (Irawan & Khoirunurrofik, 2021; Tjondro, 2018). Public perception of government accountability and fiscal management can further shape decisions on compliance. Overall, perceived fairness and government trust are vital in building tax morale, which directly influences compliance, while taxpayer awareness plays a supportive role.

Taxpayer compliance will always fluctuate due to several factors, such as taxpayer awareness. High taxpayer awareness has an impact on better understanding and implementation of tax obligations, which in turn increases taxpayer compliance. Ay et al. (2021) showed that taxpayer awareness affects taxpayer compliance. Meanwhile, Kumala and Junaidi (2020) and Adeline and Karina (2022) evidence that taxpayer awareness does not affect taxpayer compliance. The social environment plays an essential role in taxpayer compliance because the motivation to comply will grow if the social environment where the taxpayer

lives complies with tax regulations (Kim & Wan, 2022; Timothy & Abbas, 2021). Conversely, if the social environment is less supportive or tends to be non-compliant, taxpayers will imitate people in their environment to not comply with tax provisions because they are considered useless or even detrimental. Dewi and Diatmika (2020) and Ghesiyah (2021) state that the taxpayer environment affects taxpayer compliance. Meanwhile, Kumala and Junaidi (2020) show that the taxpayer environment does not affect taxpayer compliance. A combination of individual awareness and the surrounding social environment shapes taxpayer compliance. While higher awareness generally correlates with better compliance, its impact is inconsistent. Likewise, the influence of the social environment varies, indicating that compliance is contingent on a blend of personal and contextual factors.

Tax morale and tax compliance are interesting topics to study, especially when taxpayers are required to adapt to changes in tax regulations and when taxpayers see many tax scandals in the government (Fotiadis & Chatzoglou, 2022; Chen et al., 2024). This study aims to examine the factors that influence taxpayer compliance by using tax morale as a mediating variable. These factors include perceived fairness, trust in the government, taxpayer awareness, and taxpayer environment. In addition, this study also examines the determinants of tax morale and taxpayer compliance, the relationship between tax morale and taxpayer compliance, and other influencing factors (Coita et al., 2024; Rodriguez-Justicia & Theilen, 2023).

Religiosity is an important aspect of life for the Indonesian people. According to Tjondro (2018), religiosity has an influence on tax morale and taxpayer compliance. The level of trust is also influenced by the religious aspects embraced by the individual. This study explores the complex relationship between tax morale and taxpayer compliance,

highlighting the roles of perceived fairness, trust in government, taxpayer awareness, and the taxpayer environment.

Taxpayer compliance can be understood from an economic perspective and a socio-psychological perspective. Any decision to obey and disobey tax regulations is often associated with the theory of compliance. Schmolders (1959) proposed the theory of fiscal psychology to develop a connection between economic methods and economic behavior. Based on this theory, taxpayers may be less motivated to pay tax because of the absence of tangible benefits from tax payments. The current paper uses this theory to answer the question of why taxpayers are less motivated to pay taxes. Conceptually, the theory of fiscal psychology helps to determine any conditions that influence the psychological contract between taxpayers and tax authorities. Among these conditions is the perception of taxpayers concerning fairness and trust in the government (Acconcia et al., 2022). Taxpayer compliance is influenced by both economic and socio-psychological factors, requiring a multi-theoretical approach for better understanding. The theory of fiscal psychology bridges economic methods and behavior, highlighting how perceptions of fairness and trust impact taxpayer motivation. This suggests that compliance is not solely driven by costs and benefits but also by the psychological relationship between taxpayers and tax authorities.

The theory of planned behavior relates to taxpayer compliance and is influenced by three factors:

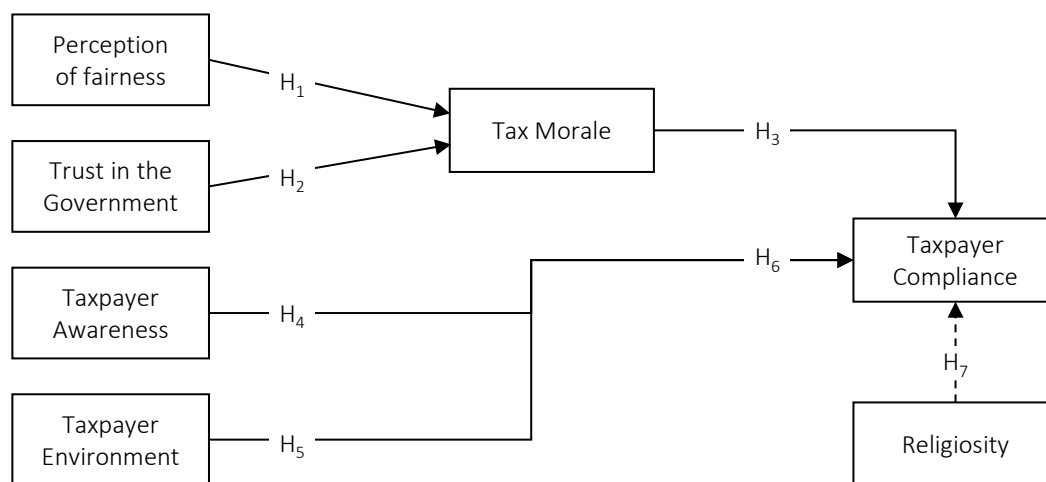
- 1) taxpayers' attitude on their job and life;
- 2) subjective norm that produces taxpayer awareness regarding the importance of tax to the people and nation; and
- 3) positive perception of the controlled behavior of taxpayers.

All these factors constitute internal and external factors of taxpayers. The internal factor is taxpayer awareness, whereas the external factor is the taxpayer environment. Strong tax awareness and a supportive environment will develop attitudes and subjective norms that lead to compliant

behavior. The tax system should treat taxpayers fairly in the name of tax fairness. When taxpayers feel that they are treated fairly by the tax system, they will develop high tax morale and can fulfill their tax obligations voluntarily (Ungureanu & Ciocanea, 2020). According to the theory of fiscal psychology, the correct implementation of tax fairness will produce a psychological effect that stimulates taxpayers to uphold honesty and be responsible for their tax obligations. This stimulation motivates taxpayers to develop high tax morale. According to the theory of planned behavior, individuals who have a good perception of something are usually able to control themselves from deviations, which then leads them to have high tax morale. Kim and Wan (2022) show that perceived fairness affects tax morale.

Meanwhile, Adeline and Karina (2022) and Sari and Mashuri (2022) show that perceived fairness does not affect tax morale. The theory of planned behavior highlights the importance of attitudes, subjective norms, and perceived control in shaping taxpayer compliance. A fair tax system enhances tax morale, encouraging voluntary compliance by fostering a sense of honesty and responsibility. While perceived fairness generally has a positive influence on tax morale, evidence shows mixed results, indicating that fairness perceptions alone might not always predict tax compliance behavior consistently.

Frequent changes in tax regulations and instances of corruption undermine taxpayer trust in the government, impacting both tax morale and compliance (Mitu, 2020; Batrancea et al., 2022; Subhan et al., 2023). According to Utama et al. (2024) and Kaulu (2022), when taxpayers perceive that the government can run bureaucracy and governance as expected, they will tend to believe that the government is able to manage tax payments and distribute tax revenues well. This will have a psychological impact on taxpayers and encourage them to be more responsible and more willing to pay taxes. The government's ability can improve tax morale. Sari and Mashuri (2022) and Pacaldo and Ferrer (2020) show that trust in the government affects tax morale. Meanwhile, Irawan and Khoirunurrofik (2021) and Tjondro (2018) show that trust in the government does not affect tax morale. Tax morale also determines whether tax-



**Figure 1.** Research framework

payers will comply or not comply with tax regulations (Coita et al., 2024; Nikolova, 2023). Trust in the government plays a crucial role in shaping tax morale, which directly affects taxpayer compliance. Frequent changes in tax regulations and instances of corruption can undermine this trust, leading to doubts among taxpayers. However, when the government demonstrates effective management and accountability, it can foster higher tax morale and enhance compliance, though the evidence remains mixed on how consistently trust influences tax morale across different contexts.

Government revenue from the tax sector is highly dependent on taxpayer awareness. According to Hassan et al. (2021) and Mascagni et al. (2021), taxpayer awareness is a condition when taxpayers understand and implement tax provisions. Based on the theory of planned behavior, taxpayer awareness produces behavioral beliefs, which means that an individual's attitude can affect an individual's desire. Guerra and Harrington (2023) and Cingl et al. (2023) inform that the social environment affects taxpayer compliance. Furthermore, the theory states that the taxpayer's environment is correlated with a normative belief. This belief is internalized by a particular individual into himself after receiving motivation or support from others.

Taxpayer awareness and the social environment are key factors in influencing tax compliance, though their impacts can be inconsistent. While awareness enhances understanding and adherence to tax regulations, studies show mixed evidence of its direct effect on compliance. Similarly,

the social environment can motivate compliant behavior, but its influence may vary depending on individual contexts and the level of support within the community.

One factor that influences taxpayers' compliance is the perceived fairness in fulfilling their tax obligations (Timothy & Abbas, 2021). When taxpayers perceive that the tax system has treated them fairly, they will tend to show compliance behavior. However, this behavior is not shown directly. Compliance behavior arises through high tax morale. Therefore, the behavior of complying with tax obligations develops when taxpayers have high tax morale. More specifically, high tax morale is obtained when taxpayers feel that they have been treated fairly by the tax system. Government revenue from the tax sector will increase if there is public and taxpayer trust in the government. The government is trusted to manage tax funds for the public interest and is transparent and accountable. According to Ciziceno and Pizzuto (2022) and Toly et al. (2023), trust in the government will increase if taxpayers understand and believe in the role and responsibilities of the government, especially those related to the allocation of tax revenues. If the government succeeds in allocating tax revenues appropriately and accurately, a positive response will grow, which is then internalized into taxpayers in the form of high tax morale. High tax morale contributes to increased taxpayer compliance.

This study examines those factors underlying taxpayer compliance, especially perceptions of fair-

ness and trust in government, as determined by tax morale, taxpayer awareness, and environmental influence. The hypotheses proposed in Figure 1 are as follows:

$H_1$ : *Perceived fairness affects tax morale.*

$H_2$ : *Trust in government affects tax morale.*

$H_3$ : *Tax morale affects taxpayer compliance.*

$H_4$ : *Taxpayer awareness affects taxpayer compliance.*

$H_5$ : *Taxpayer environment affects taxpayer compliance.*

$H_6$ : *Perceived fairness affects taxpayer compliance mediated by tax morale.*

$H_7$ : *Trust in government affects taxpayer compliance mediated by tax morale.*

## 2. METHOD

The population for this study consists of individual taxpayers who own and manage small and medium enterprises (SMEs). The sample includes SME taxpayers from Surabaya, Sidoarjo, and Mojokerto, specifically those who possess a Taxpayer Identification Number (NPWP) and have submitted a Tax Return (SPT). SME taxpayers are deemed suitable for this study as they are capable of utilizing the self-assessment system, making the evaluation of their tax morale and compliance relevant and accurate. The convenience sampling technique was employed by distributing questionnaires to respondents, either in person or through Google Forms. The survey was addressed from April to August 2023, and a total of 300 questionnaires were distributed. Of the 300 questionnaires, 280 questionnaires were received, while 20 questionnaires were rejected because they were incomplete or invalid. The dependent variable is taxpayer compliance ( $Y_2$ ), whereas the independent variable includes the perceived fairness ( $X_1$ ), trust in the government ( $X_2$ ), taxpayer awareness ( $X_3$ ), and taxpayer environment ( $X_4$ ). Meanwhile, the mediation variable is tax morale ( $Y_1$ ), and the control variable is religiosity.

The paper uses the method of description and analysis. Perceived fairness measures the perception of taxpayers, indicating that the tax system has fairly treated taxpayers despite their actual tax condition. Trust in the government measures taxpayers' perceptions of political stability, government effectiveness, and quality of regulations, rules, and policies, as well as corruption. Taxpayer awareness measures the perception of taxpayers, showing that taxpayers have understood, comprehended, and implemented tax regulations in precise and voluntary manners. Specifically, this variable comprises tax outcome allocation, financial condition of taxpayers, payment mechanism, and tax reporting. Taxpayer environment measures taxpayers' perceptions concerning the direct and indirect effects of the environment where taxpayers live on taxpayer compliance to fulfill tax obligations. In relation to this variable, several presumptions are involved, such as that the taxpayer environment greatly affects taxpayer compliance, that the taxpayer environment supports tax reporting behavior, and that the taxpayer environment may report their tax improperly. Tax morale measures the intrinsic motivation to comply with tax regulations and to pay taxes. This motivation is represented by the attitude and position of the individual. Finally, taxpayer compliance measures taxpayers' perception of the indicators of formal compliance, such as submitting annual and periodical tax reports punctually, not having indebted tax, and not receiving tax sanctions.

All research hypotheses are tested using regression statistic tests and path analysis.

$$Y_1 = b_0 + b_1X_1 + b_2X_2 + b_3X_5 + \varepsilon, \quad (1)$$

$$Y_2 = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5Y_1 + b_6X_5 + \varepsilon, \quad (2)$$

where  $Y_1$ : Tax Morale;  $Y_2$ : Taxpayer Compliance;  $X_1$ : Perceived fairness;  $X_2$ : Trust in the Government;  $X_3$ : Taxpayer Awareness;  $X_4$ : Taxpayer Environment;  $X_5$ : Religiosity;  $b_0$ : Constant;  $b_1$ - $b_6$ : Coefficient of Regression;  $\varepsilon$ : Error.

### 3. RESULTS AND DISCUSSION

After the data had been collected and tabulated, the data were tested for validity and reliability. Tables 1 and 2 present the results of both tests. Based on Table 1, the value of  $R_{count}$  for the statement or indicator is higher than the value of  $R_{table}$  with a positive value. Therefore, the statement items in the questionnaire are considered valid.

**Table 1.** Validity test

Statement	Corrected Item-Total Correlation	Statement	Corrected Item-Total Correlation	R Table
X <sub>1-1</sub>	0.517	X <sub>4-2</sub>	0.656	0.115
X <sub>1-2</sub>	0.472	X <sub>4-3</sub>	0.490	
X <sub>1-3</sub>	0.495	X <sub>4-4</sub>	0.493	
X <sub>1-4</sub>	0.635	X <sub>4-5</sub>	0.528	
X <sub>1-5</sub>	0.637	X <sub>5-1</sub>	0.409	
X <sub>1-6</sub>	0.635	X <sub>5-2</sub>	0.577	
X <sub>2-1</sub>	0.634	X <sub>5-3</sub>	0.650	
X <sub>2-2</sub>	0.511	X <sub>5-4</sub>	0.692	
X <sub>2-3</sub>	0.178	X <sub>5-5</sub>	0.586	
X <sub>2-4</sub>	0.395	X <sub>5-6</sub>	0.678	
X <sub>2-5</sub>	0.439	X <sub>5-7</sub>	0.497	
X <sub>2-6</sub>	0.353	Y <sub>1-1</sub>	0.406	
X <sub>2-7</sub>	0.455	Y <sub>1-5</sub>	0.349	
X <sub>2-8</sub>	0.268	Y <sub>1-6</sub>	0.353	
X <sub>3-1</sub>	0.505	Y <sub>1-7</sub>	0.478	
X <sub>3-2</sub>	0.505	Y <sub>2-1</sub>	0.256	
X <sub>3-3</sub>	0.617	Y <sub>2-2</sub>	0.327	
X <sub>3-4</sub>	0.435	Y <sub>2-3</sub>	0.326	
X <sub>3-5</sub>	0.701	Y <sub>2-4</sub>	0.184	
X <sub>3-6</sub>	0.588	Y <sub>2-5</sub>	0.297	
X <sub>4-1</sub>	0.504	Y <sub>2-6</sub>	0.307	

Table 2 informs that Cronbach's Alpha value is  $0.932 > 0.6$ , indicating that the variables in the questionnaire are said to be reliable.

**Table 2.** Reliability test

Cronbach's Alpha	Cronbach's Alpha Standardized	N of Items
0.928	0.932	42

Next, the classical assumption test is implemented. Table 3 shows the summary of the classical assumption test. The normality test has delivered two values of assymp.sig 2-tailed, respectively 0.084 for Equation 1 and 0.073 for Equation 2. Both values are higher than 0.05. These results confirm that the data residual has a normal dis-

tribution; therefore, the normality assumption is fulfilled. Furthermore, the multicollinearity test on each variable in Equation 1 and Equation 2 has produced a tolerance value higher than 0.1 and a VIF value lower than 10. These results assert that the multicollinearity condition is fulfilled. Finally, the Durbin-Watson value is 1.616 for Equation 1 and 2.005 for Equation 2. These results declare that the condition of autocorrelation is fulfilled.

**Table 3.** Summary of the classical assumption test

Description	Equation 1	Equation 2
Normality Test: Value of Assymp.Sig-2 tailed	0.084	0.073
<b>Multicollinearity Test: Tolerance and VIF Values</b>		
X <sub>1</sub>	0.934 and 1.071	0.291 and 1.232
X <sub>2</sub>		0.855 and 1.170
X <sub>3</sub>		0.223 and 4.477
X <sub>4</sub>		0.344 and 2.908
Y <sub>1</sub>		0.302 and 1.991
X <sub>5</sub>		0.275 and 5.718
Autocorrelation Test: Durbin-Watson Value	1.616	2.005

**Table 4.** F test and determination coefficient test

Description	Equation 1	Equation 2
F Significance Value	0.000	0.000
Adjusted R <sup>2</sup> Value	0.406	0.415

In accordance with the contents of Table 4, the F significance value is 0.000 for both Equation 1 and Equation 2. This result denotes that the research model is fit. The coefficient of determination is 0.406 for Equation 1 and 0.415 for Equation 2. These results demonstrate that the independent variable can explain the dependent variable by 40.6% for Equation 1 and 41.5% for Equation 2. The remaining, respectively 59.4% for Equation 1 and 58.5% for Equation 2, are not explained in the research model.

The regression test results on Equation 1 for the first hypothesis show that perceived fairness (X<sub>1</sub>) has a significance value of 0.000, indicating that perceived of fairness affects tax morale, so H<sub>1</sub> is accepted. These results confirm the theory of fiscal psychology that if taxpayers are treated fairly by the tax system, a psychological effect will be created in taxpayers, thus encouraging them to be honest and responsible in fulfilling their tax obligations. Perceived fairness will be stronger when taxpayers

feel their tax burden is balanced with the income used to pay taxes (Castañeda, 2024). By perceiving that the tax system has upheld fairness, taxpayers no longer see taxes as a burden, and this can lead to high tax morale. For local budgets, increased tax morale driven by fairness perceptions ensures more stable tax revenues, which in turn allow for timely funding of community services and infrastructure projects. At the state level, consistent tax contributions enhance fiscal capacity, enabling broader initiatives and reducing reliance on debt. As a result, when fairness in the tax system fosters compliance, it strengthens the government's ability to plan and allocate budgets effectively at both local and state levels. The results were supported by Timothy and Abbas (2021), who stated that perceived fairness (tax fairness) affects tax morale.

**Table 5.** Result of hypotheses testing

Hypothesis	Sig. Value	Result
$H_1$	0.000	Accepted
$H_2$	0.001	Accepted
$H_3$	0.038	Accepted
$H_4$	0.036	Accepted
$H_5$	0.530	Rejected

The results of the regression test on Equation 1 for the second hypothesis show that trust in the government ( $X_2$ ) has a significance value of 0.001, informing that trust in the government affects tax morale, so  $H_2$  is accepted. These results support the theory of fiscal psychology that the psychological impact on taxpayers that encourages taxpayers to fulfill their tax obligations will arise if taxpayers trust the government, especially government institutions that handle taxation. When taxpayers believe that the government is able to manage and distribute tax revenues well, they feel safe to entrust their tax payments to the government. For local budgets, this trust translates into a more reliable tax base, allowing for timely funding of municipal services and infrastructure, which are often directly visible to taxpayers. At the state level, enhanced tax morale through government trust supports long-term fiscal sustainability, ensuring resources are available for statewide initiatives such as education, healthcare, and public safety. Ultimately, trust in the government enables a cycle of compliance and effective budget allocation, reinforcing taxpayers' confidence in how their contributions are utilized. High tax morale is a natural

product when taxpayers feel comfortable in fulfilling their tax obligations. The results of this study are in line with Sari and Mashuri (2022), Pacaldo and Ferrer (2020), and Vythelingum et al. (2017).

The results of the regression test on Equation 2 for the third hypothesis show that tax morale ( $Y_1$ ) has a significance value of 0.038, indicating that tax morale affects taxpayer compliance, so  $H_3$  is accepted. These results strengthen the theory of planned behavior that the attitudes of taxpayers can determine their compliance behavior. When taxpayers are responsible and willing to obey their tax obligations, they tend to show behavior to complete their tax obligations (Coita et al., 2024; Nikolova, 2023). This compliance, driven by high tax morale, contributes to consistent revenue inflows at the local level, facilitating precise budget planning and allocation for community needs. On a state level, enhanced taxpayer compliance provides a steady foundation for addressing large-scale projects and ensuring fiscal stability, reducing reliance on alternative funding sources. Therefore, fostering tax morale not only boosts compliance but also solidifies budget formation, enabling government bodies to plan effectively and meet public demands.

The fourth hypothesis shows that taxpayer awareness ( $X_3$ ) has a significance value of 0.036, indicating that taxpayer awareness affects taxpayer compliance, so  $H_4$  is accepted. When taxpayers have a high awareness of the importance of taxes, they will tend to behave compliantly. These results confirm the theory of planned behavior that taxpayers who understand the taxation mechanism and tax contributions tend to be curious about the causes of their behavior related to tax payments. At the local level, this heightened awareness fosters dependable tax contributions that fund essential services and community projects, ensuring that local governments can address specific community needs. For state budgets, increased taxpayer awareness leads to a more predictable revenue stream, allowing for strategic investments in large-scale public programs and long-term infrastructure. Consequently, fostering taxpayer awareness directly supports both local and state budget formation, enhancing the government's capacity to plan and allocate resources effectively. High taxpayer awareness leads to high taxpayer compliance. The results are supported by Ay et al. (2021).



The fifth hypothesis shows that the taxpayer environment ( $X_4$ ) has a significance value of 0.530, indicating that the taxpayer environment does not affect taxpayer compliance, so  $H_5$  is rejected. The result of this study rejects the theory of planned behavior, which claims that the taxpayer environment is associated with normative beliefs, which underlines the importance of motivation or support from others. Surprisingly, an environment that supports the fulfillment of tax obligations cannot ensure that taxpayers will comply with tax regulations (Mascagni et al., 2021). This statement indicates that external factors, such as the tax-supporting environment, are not strong enough to create compliance behavior. Other external factors, such as punishment, may be needed to enforce compliance attitudes and behavior on taxpayers. This lack of influence from the environment suggests that budget formation at local and state levels cannot rely solely on external social factors to boost compliance. Instead, local and state governments may need to focus on regulatory enforcement and tangible consequences for non-compliance to ensure predictable revenue streams. Without an environmental influence on compliance, policymakers must prioritize direct mechanisms like penalties or incentives to safeguard consistent revenue collection essential for stable budget allocation. Kumala and Junaidi (2020) supported this result.

Concerning the control variable of religiosity, a regression test is carried out on Equation 2. The results show that religiosity ( $X_5$ ) has a significance value of 0.131, indicating that, as a control variable, religiosity does not affect taxpayer compliance. Religiosity is seen as a belief in God, and this belief is reflected in devotion and religious activities. In principle, religiosity is about having a good vertical relationship with God. In addition, religiosity helps humans produce good deeds in society. Despite the benefits of religiosity to humanity, religiosity is found to be unable to create taxpayer compliance.

**Table 6.** Result of path analysis with Sobel test

Hypothesis	Sig. Value	Result
$H_6$	0.039	Accepted
$H_7$	0.014	Accepted

Table 6 shows the results of the path analysis conducted through the Sobel test. The result reveals that the indirect effect of perceived fairness ( $X_1$ ) on taxpayer compliance ( $Y_2$ ) with the mediation of tax

morale ( $Y_1$ ) has a significance value of 0.039. This result ensures that tax morale is capable of mediating the effect of the Perceived fairness on taxpayer compliance, which signifies that  $H_6$  is accepted. Taxpayers who perceive that the tax system is fairly implemented will surely develop a good perception of tax, which later creates an intrinsic motivation that drives them to be more honest and responsible in fulfilling tax obligations. High tax morale delivers taxpayer compliance in which taxpayers are willing to complete their tax obligations (Ungureanu & Ciocanea, 2020). This statement implies that the perceived fairness will grow high tax morale, leading to taxpayer compliance. At the local level, this perception-driven compliance enables consistent revenue generation, which is essential for stable budgeting and addressing community-specific needs. For state budgets, enhanced compliance through perceived fairness ensures reliable tax revenues, supporting large-scale public services and long-term fiscal planning. In essence, governments can secure budgetary stability and efficient resource allocation across both local and state levels by cultivating a fair tax environment that boosts tax morale.

The results show that the indirect effect of trust in the government ( $X_2$ ) on taxpayer compliance ( $Y_2$ ) with the mediation of tax morale ( $Y_1$ ) has a significance value of 0.014, indicating that tax morale is capable of mediating the effect of trust in the government on taxpayer compliance, so  $H_7$  is accepted. Taxpayers who have high trust in the government often assume that the government can be trusted to manage and distribute tax revenues. When taxpayers feel comfortable paying taxes, intrinsic motivation will grow within taxpayers to fulfill their tax obligations (Mitu, 2020). High tax morale will activate taxpayer compliance behavior. They will complete their tax obligations honestly and responsibly. This statement implies that government behavior in terms of taxation can foster public trust, which in turn affects tax morale and taxpayer compliance. For state budgets, enhanced compliance through trust in government strengthens fiscal planning, supports comprehensive public programs, and reduces reliance on external funding sources. Ultimately, by building taxpayer trust, governments can enhance compliance and achieve predictable revenue flows, which are critical for effective budget planning and resource allocation across both local and state levels.

## CONCLUSION

The study aims to examine how perceived fairness and trust in the government impact tax morale, taxpayer awareness, and the environment and how these factors influence taxpayer compliance, with tax morale acting as a mediating variable. The study concludes that perceptions of fairness and trust in the government play a significant role in shaping tax morale among taxpayers. High levels of perceived fairness and trust lead to stronger tax morale, positively influencing taxpayer compliance. Efficient tax compliance at the local and state levels provides a stable revenue base, directly enabling accurate and timely budget formation and distribution. For local governments, enhanced tax revenue through compliance ensures funds for essential public services, while at the state level, it supports larger-scale initiatives and fiscal health. Consequently, effective compliance not only strengthens government accountability but also facilitates economic stability through consistent budget fulfillment and allocation. Additionally, taxpayers' awareness of their responsibilities also contributes positively to compliance. However, the surrounding taxpayer environment does not appear to have a meaningful impact on whether individuals comply with tax obligations. Religiosity, which was included as a control variable, does not have a measurable effect on taxpayer compliance. Instead, the interplay between perceived fairness, trust in the government, and tax morale predominantly drives compliance behavior.

As a practical contribution to policymakers, these results underscore the need to prioritize transparency, fairness, and trust-building measures to enhance tax morale and compliance. Enhancing taxpayer education and maintaining high standards of governance could further reinforce voluntary compliance, especially among SMEs that rely on self-assessment. Future research should explore the dynamic interplay of these factors in diverse contexts to better inform effective tax policies.

## AUTHOR CONTRIBUTIONS

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