Understanding Tax Regulations, Tax Awareness, Tax Penalties, and Compliance among Small, Medium, and Micro Enterprises (SMMEs)

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ABSTRACT

The purpose of this study was to know whether the level of the tax payer's understanding on tax regulation, the service quality of the tax officers, and the perception of taxation penalties impact on SMMEs tax payer's compliance either partially or simultaneously. The population in this research was SMMEs entrepreneurs who have business in DIli region. The sampling technique was by purposive sampling of 40 respondents. This research used primary data in the form of questionnaires. This research used quantitative methods with multiple regression analysis models. The results of this research indicated that the level of the tax payer's understanding on tax regulation, the service quality of the tax officers, and the perception of taxation penalties have positive and significant influenced on SMMEs tax payer's compliance.

KEYWORDS: Tax Compliance, Tax Regulations, Taxation Penalties

INTRODUCTION

Timor Leste is implementing a development movement. The Timor Leste government has taken various efforts to increase national income through taxes, levies, and company profits. The ancient Egyptian Kingdom is when the taxing system first emerged (Sritharan and Salawati, 2019). Governments fund their expenses through taxation (Sritharan and Salawati, 2019). In both rich and developing nations, tax money is the primary source of income for the government (Tan et al., 2021). For the government to reallocate resources and deliver public goods, tax compliance is crucial (Night and Bananuka, 2018).

Tax revenue is a source of revenue that has the largest portion in the State Revenue and Expenditure Budget (APBN) (Sriniyati, 2020). However, taxes have an important role in state life, especially in implementing development. Taxes are a vital source of state revenue in supporting domestically sourced development financing (Listiyowati et al., 2021). In addition, the government can regulate economic growth through tax policy. The source of state income from taxes is divided into seven sectors, namely: 1. Income tax, 2. Value added tax, 3. Sales tax on luxury goods, 4. Land and building tax, 5. Export tax, 6. International trade tax, and 7. Import duties and excise. The amount of the tax rate is determined by the applicable tax laws. Generally, tax begins to be imposed when someone already has income of a certain amount.

The policy regarding state finances was adopted by the central government in order to have the ability to finance national development based on the Timor-Leste government constitution concerning Taxes and Customs Number 8 of 2008. This law seeks to loosen the fiscal burden which is considered disproportionate and excessive, viewed from the perspective of reality in the country domestic. Therefore, it is necessary to prioritize the neutrality of the tax system so as not to give rise to reasons for economic or investment options, as a

substitute for market forces and competition.Timor Leste's national parliament has passed the Tax and Customs Law which came into force on 1 July 2008. Wage taxes and tariff income are deducted from salaries paid to employees to be paid to the Timor Leste revenue service by the employer. In addition, the employer is responsible for providing information to the employee regarding income tax withheld from the salary. Employees have the right to request information from the employer at the end of each year if necessary or after termination of employment.

Monthly taxable wages 0 - $500 with an income rate of 0%. Wages over $500 are taxed at 10% of the amount over $500 for residents residing in Timor-Leste for a period or periods totaling one hundred and eighty-three (183) days in any twelve months period beginning or ending during that year, unless the person's permanent residence is not in Timor-Leste, or is an employee of the Government of the Democratic Republic of Timor-Leste who is posted abroad at any time during the year.

Salaries paid to employees who are not residents of Timor-Leste are taxed at a flat rate of 10% of the total monthly salary and there is no tax-free threshold for non-residents. The tax must be paid on the 15th day following the month in which salary income tax is withheld. For example, payroll taxes withheld in January will be paid in January or no later than February 15th. Services income tax is paid on total sales of $500.00 or more in a given calendar month at a tax rate of 5%. Income tax installment monthly and quarterly income and total income (for 1 month or 1 quarter) x with a tax rate of 0.5%. Annual income tax rate. Permanent business entities are subject to a Taxable Income Level tax rate of $ 0.00 - $ 6,000 with a tax rate of 0% and if more than $ 6,000 will be subject to a 10% annual income tax rate. For business entities and non-resident business entities a tax rate will be applied 10%.

Tax is a mandatory contribution to the state through levies or certain tax deductions. Tax has regularend and budgetair functions. Regularend is a tax that functions as a tool to regulate and implement government policies in the social and economic fields. Taxes whose function is to put money into the State treasury is called the budgetary function. Based on this function, there is discipline and public awareness to comply with applicable tax obligations. Taxes are a form of state revenue that contributes the largest percentage compared to other revenue sectors such as oil and gas and non-oil and gas. (Listiyowati et al., 2021).

One source of revenue that has the potential to increase state revenue is tax revenue. Taxes are influenced by two factors, namely internal and external factors. Internal factors are factors related to individual character which are the driving force in carrying out tax obligations such as knowledge, awareness, understanding and level of education. Meanwhile, external factors such as service quality and the strictness of sanctions. In fact, not all taxpayers can understand the rules and procedures for implementing correct tax reporting. This is due to a lack of understanding of tax regulations and tax benefits that can increase tax awareness.

Tax compliance tends to be a more significant aspect of tax policy. As governments look for ways to raise money to address public requirements, tax compliance is a crucial issue for all countries (Al-Zaqeba et al., 2018). According to research by Timothy and Abbas (2021), tax morality has the biggest role as the main driver of tax compliance (Tambun and Haryati, 2022). One of the key factors regarding taxpayer compliance is the moral theory of taxation (Listiyowati et al., 2021). Tax compliance is considered a complex problem (Al-Ttaffi et al., 2020). Tax compliance is a top priority for most countries in the world (Tan et al., 2021). Taxpayer compliance is influenced by various factors, including government programs or policies, taxpayer awareness, knowledge and understanding of tax regulations, and tax services. Government programs in an effort to increase taxpayer compliance include sunset policy, tax amnesty and tax sanctions.

This research aims to examine the level of taxpayer understanding of tax regulations, tax sanctions, awareness of paying taxes, and taxpayer compliance among Micro, Small and Medium Enterprises (MSMEs) entrepreneurs in Dili, Timor-Leste. The aim of the research is to analyze the influence of understanding tax regulations on taxpayer compliance, the influence of awareness on taxpayer compliance, and the influence of the severity of sanctions on taxpayer compliance.Ease of Use

LITERATURE REVIEW
1. Understanding Tax
A nation's financial foundation is its tax base (Fitdra and Inayati, 2022). Taxes may be seen as a way for a nation to raise money to deal with many issues, including social issues, welfare improvements, prosperity, and turning into a social contract between the state and its people (Asrinanda and Diantimala, 2018). Taxes collected must be based on law so as to guarantee legal certainty, both

for the tax authorities as tax collectors and taxpayers as taxpayers (Rizki, 2018). Tax is one source of state revenue that comes from community contributions which can be imposed without receiving direct compensation (Siswanti and Subarkah, 2019). One source of funding for development or improvement of domestic facilities and infrastructure is through taxes collected by tax officers from taxpayers (Yuliansyah et al., 2019). According to Mardiasmo (2018) a tax audit is a series of processes of searching, collecting, processing data and/or other evidence that can be used as a basis for testing compliance with tax obligations (Riyadi et al., 2021). Tehulu and Dinberu (2014) assert that taxes are widely seen as significant sources of domestic revenue worldwide, with nations heavily relying on direct and indirect taxes to advance and strengthen their economies (Alshira'h, 2020). To meet the needs of the government in terms of funding, taxes are primarily collected (Pinheiro et al., 2021).

Tax collection systems are divided into three types, namely: 1). Official Assessment System, namely a collection system that gives authority to the tax office to determine the amount of tax that must be paid by taxpayers. This system will only be applied if conditions such as those mentioned in article 51 of the Untaet Regulation 2000/18 as amended are met by the taxpayer. The characteristics are as follows: 1. The Tax Office determines the tax owed by the Taxpayer, 2. Taxpayers are just waiting for a tax assessment letter to be issued for the tax debt that must be paid. The self-assessment system is a tax collection system where taxpayers are given the authority to calculate for themselves how much tax the taxpayer must pay. Meanwhile, the withholding system is the one that cuts taxes, not the taxpayer and also not the government but another party. There are a number of issues with the self-assessment system's implementation, such as taxpayer non-compliance (Fitdra and Inayati, 2022). Self assessment system is a method for collecting taxes that grants the taxpayer the authority and responsibility to determine, pay, and self-report the amount of tax due (Asrinanda and Diantimala, 2018). The Timor-Leste government implements a self-assessment system, namely: 1. Taxpayers are entrusted with calculating the calculated tax and remitting it, reporting it themselves; 2. The function of the tax apparatus is to supervise taxpayers. 3. The tax office does not interfere and only supervises. Indonesia follows a self-assessment system in which taxpayers are responsible for calculating, paying, and self-reporting their taxes (Fitdra and Inayati, 2022).

Understanding tax regulations is a way for taxpayers to understand tax regulations and be able to implement them in accordance with applicable regulations. Knowledge and understanding of tax regulations is a process where taxpayers know about taxation and apply it to pay taxes. Indicators in understanding tax regulations are as follows: 1). Taxpayers know the function and benefits of taxes, 2). Taxpayers know how to pay taxes, 3). Taxpayers know tax regulations, 4). Taxpayers know if there are changes to tax regulations. Several indicators of taxpayer awareness are: 1). Motor vehicle tax is a form of participation in supporting state development, 2). Delaying tax payments and reducing the tax burden on motor vehicles is very detrimental to the state, 3). Taxes are determined by law and can be enforced, 4). will accelerate the realization of government programs for the advancement of people's welfare.

Sanctions are an action in the form of law that is given to people who violate regulations. It can be interpreted that tax sanctions are tax norms that are not violated by taxpayers because tax sanctions are a deterrent. Therefore, tax sanctions need to be understood and understood so that taxpayers can know what they should and should not do regarding fulfilling tax obligations so that taxpayers themselves are not harmed. This view of tax sanctions is measured by indicators, namely: 1) Creating taxpayer discipline; 2) Firm sanctions for taxpayers who commit violations, 3) Sanctions are given according to the size of the violation, and 4). The use of witnesses must be in accordance with the applicable provisions and regulations.

Based on Law Number 8/2008, RDTL explains that a taxpayer is someone who is subject to taxes or levies based on the law currently in force and, this means someone who suffers a loss in one tax year. Types of taxpayer compliance are: 1). Formal compliance is a situation where taxpayers fulfill their obligations formally in accordance with the provisions of tax law; and 2). Material compliance is a situation where the taxpayer fulfills all material tax provisions, namely in accordance with the letter and spirit of the tax law. Material compliance can also include formal compliance.

2. Tax Compliance

The importance of taxpayer compliance with tax responsibilities has drawn the attention of numerous academicians all around the world (Musimenta, 2020). Definitions of tax compliance include paying taxes voluntarily and in accordance with the letter of the law (referred to as committed tax compliance), paying taxes reluctantly and in

accordance with the letter of the law (referred to as capitulative tax compliance), and paying taxes after planning taxpayers' activities to minimize tax liabilities through compliance with the law (Mahangila, 2017). According to Nguyen et al. (2020), studies on tax compliance are based on three theoretical models: deterrent theories, economic and psychological models, and behavioural models. Tax compliance occurs when taxpayers cumulatively submit their tax returns on time and include the real value of earned income and expenses that are fiscally acceptable and supported (Pinheiro et al., 2021). Tax compliance is heavily influenced by how taxpayers perceive the government's accountability, integrity, proper management, transparency, and other qualities (Kiow et al., 2017). As a result, concerns about tax compliance have been identified as a national problem that affects the nation's economy (Alshira'h, 2020). One of the main challenges that requires the right attention of the authorities of developing countries is tax compliance (Malik and Younus, 2019).The governance of the economic and financial legal system is seen to be significantly influenced by the tax system, both in Vietnam and elsewhere in the world (Do et al., 2022). In both developed and developing nations, tax compliance has grown in importance since it highlights the obligation of taxpayers to disclose their income and establishes their tax due (Inasius, 2018). Before the establishment of a tax amnesty program, tax non-compliance may be prevalent in developing nations like Indonesia for a variety of reasons (Inasius, et al., 2020). The Indonesian government must improve tax compliance by looking into the factors that influence individual taxpayers' compliance in order to raise the tax ratio and the country's income (Nasution et al., 2020). Despite the high level of economic integration across EU countries, tax compliance costs have long been seen as a significant barrier to investment between those nations (Barrios et al., 2020). According to New Zealand taxpayers, there is a significant correlation between system fairness and higher compliance levels (Bin-Nashwan et al., 2020). The problem of tax compliance in developing economies tends to have more serious consequences than that in advanced economies (Sidik et al., 2019). In five of the nations surveyed by the OECD (2015)—Hong Kong, India, Indonesia, Malaysia, and Thailand— tax income for the year 2012 was less than 20% of GDP (Sidik et al., 2019). Only approximately 30% of Indonesians are prepared to pay taxes, while 70% of private individuals who are able to do so in Indonesia choose not to. This indicates that tax compliance among Indonesian citizens is still low (Asrinanda and Diantimala, 2018). Both in theory and in practice, tax compliance requires a solid understanding (Bin-Nashwan et al.,2020). Tax compliance may be encouraged by discouraging tax evasion and by fostering trust in taxpayers (Surugiu et al., 2021). Tax compliance will rise as a result of greater public confidence in and support for the tax authorities (Irawati et al., 2019) is the act of declaring and paying tax debts in accordance with the law (Mahangila, 2017). Tax compliance is described as a taxpayer's capacity and willingness to abide by the tax laws, report their income accurately each year, and pay their taxes on schedule (e Hassan, 2021). Taxpayer compliance is one of the most influential factors in efforts to increase tax revenue (Riyadi et al., 2021).

3. Stewardship Theory

One paradigm for describing the reasons for management conduct in different kinds of companies is provided by stewardship theory. Theorists believe that a steward will value collaboration more than defection if given the option between acting in a self-serving or pro-organizational manner. Stewardship theory in the context of taxation, namely the relationship between the people and the government in an effort to collect taxes. Tax payers are people's contributions to the state which will be used by the people to create prosperity and prosperity. People can calculate the taxes they owe themselves and then deposit them with the state. This tax will be used to achieve the success of the state's goals in realizing people's prosperity.

Stewardship is "the way in which someone organizes and looks after something," according to the MacMillan lexicon (Contrafatto, 2014). First, stewardship entails a system of rules that direct a person's actions. Furthermore, stewardship-based behavior entails "looking after," or taking care of and defending something that belongs to someone else. Third, "something," or resources that have varying relative worth for other people, is the target of this caring behavior (Contrafatto, 2014). According to Contrafatto (2014), stewardship is a strong idea that resonates with some of the current policy agendas that address global concerns like corporate social responsibility, accountability, and sustainability at the macro and more organization-focused levels (Contrafatto, 2014). Stewardship is an alternative model based on distinct motivating assumptions that may adjust, counterbalance, or change current agency-based governance practices rather than necessarily serving as a full replacement

for agency-based governance (Torfing and Bentzen, 2020). A paradigm known as stewardship theory contends that people are inherently driven to work for other people or for organizations in order to fulfil the duties and obligations that have been placed in their hands. It implies that individuals are more likely to be pro-organizational and collectively oriented than individualistic, and as a result, they endeavour to achieve social, group, or organizational goals since it makes them feel more satisfied.

RESEARCH METHOD

This research uses explanatory research with a quantitative approach. A technique called explanatory research was created to look at a phenomenon that has not been thoroughly examined or explained. Its primary goal is to give specifics on where to locate a limited quantity of information. The main goal of explanatory research is to solve problems by identifying the data that we had previously ignored but never looked at. However, even if the results might not be definitive, it will still help us comprehend the problem better. Explanatory research is a method developed to investigate a phenomenon that has not been researched before or has not been explained well before in a precise way. This research is about the influence of understanding tax regulations, awareness, and strictness of sanctions on individual taxpayer compliance among Micro, Small and Medium Enterprises (SMMEs) entrepreneurs in Dili, Timor-Leste.

POPULATION AND SAMPLE

Characteristics of respondents according to gender, age and education. There were 57 male respondents (57%), 43 female respondents (43%). Based on the age of the respondents, there were 21 respondents (21%) aged between 25-35 years, 28 respondents (28%) aged between 36-45 years, 37 respondents (37%) aged between 46-55 years, and less than 25 years old were 6 respondents (6%), and respondents aged more than 55 years were 8 respondents (8%). Based on the level of education, 3 respondents had junior high school education (3%), 46 respondents had high school education (46%), 2 respondents had DIII education (2%), and There were 44 respondents (44%) with a bachelor's degree, and 5 (5%) with master's degrees.

Description and General History of Research Objects

The Organic Structure of the Tax Authority was established through Decree-UU no.13/2017, dated 5 April, replacing the Directorate General of Taxes as the agency responsible for carrying out the responsibilities of the Ministry of Finance related to the administration and collection of taxes and other taxes and financial contributions to the State.

The aim of establishing implementation activities in accordance with the duties and responsibilities is to guide and assist the administration and collection of state revenues originating directly from property, services, capital and sales tax in accordance with the statutory regulations stipulated by the Government in the field of taxation. Border and territorial boundaries of countries for the purposes of fiscal, economic and social protection, namely in the context of the environment, safety and public health. Administration, supervision and collection of import duties.

Administration and tax collection of selective taxes, direct taxes and other income entrusted to him, in accordance with policies established by the Government and in accordance with statutory provisions, and Administration, supervision and collection of taxes relating to all exploration, industrial and oil commercialization.

1. The Tax Authority in Timor-Leste is a professional organization that prioritizes serving people's income to improve national development.

2. To reach the entire territory of Timor-Leste to encourage national development and economic growth, to achieve a just and prosperous country for all the people of Timor-Leste through a service that upholds human values that is safe, easily accessible and of good quality.

3. Improve the quality of service to the community.

4. Become a government institution that supports national development and economic growth.

The mission of the Autoridade Tributária Timor-Leste (A.T.TL) is as follows:

1. Create a fast and precise service that reaches the entire community of Timor-Leste

2. Build adequate facilities and infrastructure.

3. Provide quality service to the entire community.

4. Prepare draft regulations for a sustainable tax administration system.

5. Implement policies related to business activities to support and facilitate community activities.

6. Increase the potential of quality human resources and professionalism

MODEL RESEARCH
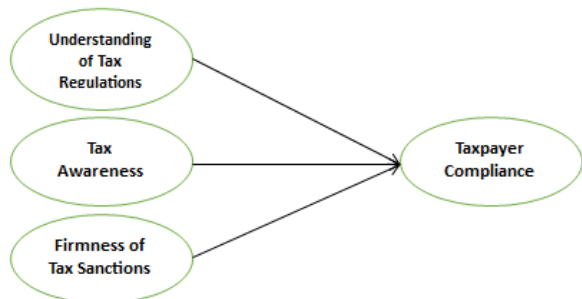
Picture 1: Research Model

Reliability Test

A questionnaire is said to be reliable or reliable if a person's answers to statements are consistent or stable over time. A construct or variable is said to be reliable if it provides a Cronbach alpha value > 0.70 (Ghozali, 2011). The reliability test results of each variable can be seen in table 4.10. The complete reliability test results can be seen in the attachment.

Tabel 1: Reliability Test

Variabel	Cronbach's	Information
Taxpayer Awareness	0,929	Reliable
Fiscus Service	0,940	Reliable
Tax Sanction	0,932	Reliable
Taxpayer Compliance	0,904	Reliable

Based on the results of the reliability test on all variables using Cronbach alpha, all variables have an alpha value > 0.60, it can be concluded that all variables in this research are said to be reliable.

Normality test

From the data, it is known that the significant value or probability is 0.152. Where this value is greater than 0.05, the research data is normally distributed.

Table 2: Normality Test

	Unstandardized Residual
Kolmogorov-Smirnov Z	2.033
Asymp. Sig. (2-tailed)	0.152
Information	Normal

Multicollinearity Test

The multicollinearity test aims to detect the existence of a linear relationship between independent variables in multiple regression. A good regression model should have no correlation between independent variables. To detect whether there is multicollinearity in the multiple regression model, it can be seen from the tolerance value and Variance Inflation Factor (VIF). If the tolerance value is above 0.1 and the VIF is below 10 then the model is free from multicollinearity (Ghozali, 2011)

Table 3: Multicollinearity Test

Variable	Tolerance	VIF	Information
Understanding Tax	0,423	2.362	Multicollinearity Free
Awareness	0,447	2.239	Multicollinearity Free
Firmness of Sanctions	0,441	2.265	Multicollinearity Free

Multiple Regression

To interpret the results of this analysis, it can be explained:

1. A constant value of 4,219 indicates that if the variables Taxpayer Understanding, Taxpayer Awareness, and strictness of tax sanctions are assumed to be constant or equal to zero, then the amount of individual taxpayer compliance will increase.

2. The results of the hypothesis test show that the regression coefficient for the variable understanding of tax regulations is positive at 0.260. This means that the higher the understanding of tax regulations, the level of compliance of individual taxpayers with Ministério das Financas: Direcção Nacioan de Receitas Domésticos will increase.

3. The regression coefficient for the taxpayer awareness variable is positive at 0.345. These results indicate that the higher the level of taxpayer awareness will increase individual taxpayer compliance.

4. The results of the hypothesis test for the tax sanctions severity variable show a regression coefficient of 0.371. From these results it can be interpreted that the higher the level of strictness of tax sanctions will increase individual taxpayer compliance.

Table 4: Multiple Regression

Variable	Coefficient Regression	tcount	Sig
Constant	4.219	5.186	0.000
Understanding Tax	0.260	3.361	0,001
Awareness	0.345	4.587	0,000
Firmness of Sanctions	0.371	4.908	0,000
R2 = 0.757	F = 99.800		
Adjusted R2 =0.750	Sig = 0,000		

Hypothesis Test

The t test was used to determine the magnitude of the influence of each variable: understanding of tax regulations, awareness of taxpayers, and strictness of tax sanctions on the compliance of individual taxpayers registered with the KPP in Dili Timor Leste at the Ministério das Financas: Direcção Nacioan de Receitas Domésticos. Regression testing uses a two-sided test (two tailed test) with α = 5%, which means that the confidence level is

95%. The t test results can be seen in the attachment. Based on the results of the t test, as it shown.

Understanding Tax Regulations Positive Influence on Individual Taxpayer Compliance at the Ministry of Finance: Direcção Nacioan de Receitas Domésticos Dili, Timor-Leste.

Based on the results of the first hypothesis testing, the results showed that understanding tax regulations had an effect on individual taxpayer compliance at the Ministério das Financas: Direcção Nacioan de Receitas Domésticos dili Timor Leste, which was shown by the results of the T test which obtained a significance value of 0.001 which was smaller than 0.05 and the value The regression coefficient is positive 0.220 so H1 is accepted, which means that the level of understanding of tax regulations has a positive effect on individual taxpayer compliance at the Ministério das Financas: Direcção Nacioan de Receitas Domésticos. This means that taxpayers know the function of taxes and the benefits of taxes for the needs of the State and the survival of the community. Taxpayers do not have any doubts regarding the issue of coercive tax elements. Taxpayers will consciously comply with paying taxes through applicable regulations and systems, because taxpayers know how the tax revenue process will be felt, even though not directly. This can be explained by the fact that research respondents are of the opinion that by understanding the regulations, the higher the level of understanding of tax regulations, the more individual taxpayer compliance will increase.

Mustofa found that the variable understanding tax regulations partially had a significant effect on taxpayer compliance and research. Hardiningsih's (2011) research shows that knowledge of tax regulations has no effect on the willingness to pay taxes. Research by Lianty et al. (2017) that tax knowledge has a significant effect on individual taxpayer compliance.

Table 5: Coeficient

Model	Unstandardized Coefficies		Standardized Coefficients,	t	Sig.
	B	Std. Error	Beta		
(Constant)	4,219	,814	·	5,186	,000·
Understanding of Regulations Tax (X)	,220	,066	,260	3,361	,001·
Awareness (X2))	,285	,062	,345	4,587	,000
Firms Sanctions (X3)	,316	,064	,371	4,908	,000

Nurlaela's research (2018) shows that taxpayer awareness has a significant effect on taxpayer compliance in paying motor vehicle taxes. The results of research by Novitasari (2015) show that taxpayer awareness has a positive and significant effect on taxpayer compliance in paying taxes.

Research by Arum (2012), Jotopurnomo (2013), Fuadi (2013), Ngadiman and Huslin (2015), Septarini (2015), and Susmita (2016) shows that the assertiveness of tax witnesses has a positive and significant effect on taxpayer compliance. However, it is different from research by Asbar (2014) and Ningsih (2016) that tax sanctions have no effect on taxpayer compliance.

DISCUSSCION

The study investigates the impact of three critical factors—understanding of tax regulations, tax awareness, and the firmness of tax sanctions—on the compliance of Micro, Small, and Medium Enterprises (SMMEs) taxpayers. This research is particularly significant in the context of SMMEs in DIli, aiming to identify the determinants that can effectively enhance tax compliance within this sector. The findings of this study are aligned with previous research, reinforcing the notion that a comprehensive understanding of tax regulations significantly contributes to higher tax compliance. The statistical analysis revealed that an increase in taxpayers' understanding of tax laws directly correlates with improved compliance rates. This underscores the importance of educational programs and resources that can enhance the knowledge of tax obligations among SMMEs entrepreneurs. Such initiatives can demystify the complexities of tax regulations and foster a more cooperative attitude towards tax authorities.

Tax awareness also emerged as a crucial factor influencing compliance. The study showed that when taxpayers are more aware of their tax responsibilities and the benefits of compliance, they are more likely to adhere to tax laws. This aligns with the findings of various studies which suggest that awareness campaigns and regular communication from tax authorities can significantly improve compliance rates. Enhanced awareness ensures that taxpayers are not only informed about their obligations but also understand the broader economic and social benefits of paying taxes.

Furthermore, the firmness of tax sanctions plays a pivotal role in ensuring compliance. The study found that stringent enforcement of tax penalties acts as a deterrent against non-compliance. The perceived risk of severe penalties encourages taxpayers to adhere to tax laws to avoid potential sanctions. This is consistent with the deterrence

theory, which posits that the certainty and severity of punishment can significantly reduce the likelihood of non-compliance. Effective enforcement of tax laws, therefore, not only ensures compliance but also promotes a culture of accountability among SMMEs entrepreneurs

The multiple regression analysis in the study confirmed that all three variables—understanding of tax regulations, tax awareness, and the firmness of tax sanctions—have a positive and significant impact on SMMEs taxpayer compliance. The adjusted R² value of 0.750 indicates that these variables collectively explain 75% of the variance in taxpayer compliance. This high explanatory power underscores the combined importance of education, awareness, and enforcement in enhancing tax compliance among SMMEs.

In conclusion, the findings of this study provide valuable insights for policymakers and tax authorities.

Such a comprehensive strategy not only benefits the tax authorities through increased compliance and revenue but also supports SMMEs by creating a more predictable and fair tax environment, ultimately contributing to the overall economic development.

CONCLUSION

Based on the research results, understanding tax regulations has a positive and significant effect on taxpayer compliance for SMEs in Dili, Timor-Leste. The higher the level of understanding of tax regulations for a taxpayer or SME owner, the higher the level of mandatory compliance with the obligation to pay taxes.

Taxpayer awareness has a positive and significant effect on taxpayer compliance with the tax authorities in Dili, Timor-Leste. This means that with a high level of taxpayer awareness of the obligation to pay taxes, taxpayers will voluntarily pay their taxes and will increase taxpayer compliance.

The strictness of tax sanctions has a positive and significant effect on taxpayer compliance. This means that firmness regarding tax sanctions in the form of administrative sanctions or fines is considered to increase taxpayer compliance among SMMEs in Dili, Timor-Leste.

in conclusion, the findings of this study provide valuable insights for policymakers and tax authorities. To improve tax compliance among SMMEs, a multifaceted approach is necessary. This includes increasing efforts to educate taxpayers about tax regulations, enhancing awareness through continuous engagement and communication, and maintaining a strict enforcement regime to deter non-compliance. By addressing these areas, tax authorities can foster a more compliant and cooperative taxpayer base, thereby ensuring sustainable revenue generation and supporting the growth of the SMMEs sector.

LIMITATION

Future research, apart from using questionnaires, the method of direct interviews with respondents will also be used so that the data obtained is more valid, current and factual. It is recommended that further research could add several other variables that were not examined in this study. So you can find out other factors that can increase taxpayer compliance.

It is hoped that Ministério das Financas: Direcção Nacioan de Receitas Domésticos can further increase its firmness towards tax payment processes that are not on time, improve complicated payment systems and increase taxpayer compliance in paying taxes by improving the quality of office facilities and infrastructure of Ministério das Financas: Direcção Nacioan de Receitas Domésticos

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