

Digital tax policies and compliance challenges for MSMEs in Indonesia

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Abstract: As digital Micro, Small, and Medium Enterprises (MSMEs) rapidly grow in Indonesia, ensuring their compliance with tax regulations has become an urgent priority. This study delves into the challenges and innovative solutions to enhance tax compliance, focusing mainly on digital content creators. This study examines the challenges and solutions for improving tax compliance among digital Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, mainly digital content creators. The research aims to analyze the impact of tax sanctions, modernization of tax administration, and tax policy reforms on the compliance behavior of these entities. A qualitative approach was employed, utilizing interviews and focus group discussions (FGDs) with informants selected through purposive sampling. The findings indicate that tax sanctions significantly influence compliance, but modernization of tax systems improves transparency and efficiency, thus enhancing compliance. Policy reforms, particularly those tailored to the unique needs of digital businesses, offer the flexibility needed for fulfilling tax obligations. The novelty of this research lies in the proposed model that integrates tax sanctions, administrative modernization, and policy reforms, addressing the unique characteristics of digital MSMEs. The practical implications suggest that implementing a user-friendly digital tax system, supported by clear guidelines and targeted reforms, can simplify compliance for digital MSMEs, leading to better tax reporting. These findings provide actionable insights for policymakers in designing effective, adaptive tax policies for Indonesia's rapidly growing digital economy.

Keywords: Digital economy, Modernization of tax administration, Tax compliance, Tax policy reform, Tax sanctions.

1. Introduction

Tax compliance continues to be a pressing issue in emerging markets, including Indonesia, where the rapid expansion of the digital economy has outpaced the current tax regulatory frameworks. With digital MSMEs contributing significantly to the national economy, it is critical to address the compliance gap in this sector. Tax compliance remains a significant challenge for many economies, especially in emerging markets like Indonesia, where informal sectors and digital economies are expanding rapidly [1], [15]. Ensuring that all eligible taxpayers meet their obligations is critical for governments to generate revenue, support public services, and foster sustainable development. In recent years, digital content creators and MSMEs (Micro et al.) have become critical contributors to the economy, driven by technological advancements and widespread internet adoption [12]. However, these sectors pose unique challenges to tax compliance due to their decentralized nature, reliance on online platforms, and often informal business structures [17].

Research [3] has shown that early tax education could potentially influence future compliance behavior, particularly by instilling a sense of responsibility and awareness of tax obligations among digital MSMEs and content creators. This is especially crucial as many digital entrepreneurs may not

fully understand the complexities of tax compliance in their sector. By improving tax literacy, governments can reduce the compliance gap and foster a culture of voluntary compliance.

Tax compliance in the digital sector has attracted increasing attention as governments strive to regulate this emerging economy. Traditional mechanisms, such as tax penalties, tax administration modernization, and tax policy reforms, have been widely studied in other sectors. These strategies address common pain points in tax systems, enhancing voluntary compliance and simplifying tax administration [16], [17]. However, applying these mechanisms to MSMEs and digital content creators has received limited attention, especially in the Indonesian context.

The rise of digital content creators in Indonesia, fueled by increasing internet penetration and the proliferation of digital platforms, presents new challenges for tax authorities. Digital content creators often monetize their activities through various income streams—such as sponsorships, advertisements, and brand partnerships—that are more complex and informal than traditional business models [9]. This informal nature leads to a substantial compliance gap, as many content creators and MSMEs remain outside the formal tax system [22]. The rapid growth in this sector, with content creators increasing by 314% globally between 2021 and 2023 [20], further complicates tax administration.

The existing body of research suggests that tax penalties, modernization, and policy reforms can influence compliance behavior, but their impact on digital MSMEs remains underexplored [5], [18]. Moreover, the interaction between these mechanisms and the characteristics of digital businesses—such as size, industry type, and reliance on digital platforms—has not been sufficiently addressed. Given the distinctive nature of digital content creation as a business model, it is crucial to assess how these strategies apply to this sector [6].

This study aims to fill this gap by analyzing the impact of tax penalties, administrative modernization, and tax policy reforms on tax compliance among digital content creators and MSMEs in Indonesia. It also seeks to explore the interaction of these factors and determine whether their effectiveness varies based on the characteristics of the businesses involved. By examining these issues, the study provides valuable insights for policymakers and academics interested in improving tax compliance in the digital age.

The research questions below are derived from critical gaps in the literature regarding the intersection of tax sanctions, administrative modernization, and tax policy reform in enhancing compliance among digital MSMEs. The literature suggests that while these strategies have been effective in traditional sectors, their impact on digital businesses remains underexplored [6], [13]. Furthermore, the unique characteristics of digital MSMEs—such as their reliance on digital platforms and diverse income structures create additional complexities for tax compliance, necessitating further investigation.

The study addresses the following research questions:

1. How effective are tax sanctions in increasing compliance among digital MSMEs compared to administrative modernization and tax policy reform?

This question examines the comparative effectiveness of these mechanisms, drawing from previous studies that show that tax sanctions and modernization have varying impacts on compliance in different sectors [6].

2. How do tax sanctions, administrative modernization, and tax policy reform interact to influence tax compliance among digital MSMEs?

The interaction between tax sanctions, administrative modernization, and tax policy reforms significantly influences tax compliance, especially for digital MSMEs. Recent research [6] highlights the importance of digital taxation systems particularly AI and blockchain technologies—in enhancing compliance behavior by improving efficiency and reducing tax evasion [6]. Furthermore, the World Bank emphasizes that building trust through tailored reforms and simplifying administrative processes helps smaller enterprises navigate the complexities of tax compliance in the digital era [23].

3. Are there significant differences in the impact of these factors based on business characteristics such as size, industry type, or reliance on digital platforms?

Business characteristics such as size and reliance on digital platforms significantly affect tax compliance. For instance, research found that smaller MSMEs struggle with the complexities of tax reporting due to fragmented income streams and the diverse nature of digital platforms, which makes compliance more challenging [11]. Similarly, other research argue that digital tax systems must be tailored to the unique challenges faced by different business types, particularly those that rely heavily on digital transactions [6].

4. How can the combination of tax sanctions, administrative modernization, and tax policy reform be optimized to improve compliance among digital MSMEs?

To optimize compliance, the combination of tax sanctions, modernization, and reforms should focus on simplification and user-friendliness. Research suggest that integrating digital tools such as AI and blockchain with simplified tax systems can lead to better compliance, especially for digital MSMEs [6]. Additionally, the International Monetary Fund recommends that tax policies be tailored to the unique needs of digital MSMEs to ensure inclusivity and sustainability in tax compliance efforts [13].

This study is expected to contribute theoretically and practically to the ongoing discussions around tax compliance. Theoretically, it will provide empirical evidence on the interaction between tax penalties, administrative modernization, and tax policy reforms in digital MSMEs, an underexplored area. By focusing on the unique dynamics of digital businesses, the study aims to expand existing tax compliance models to accommodate digitalization's challenges better. Practically, the findings will offer valuable insights for tax authorities in Indonesia and other emerging economies. By understanding how digital content creators and MSMEs navigate tax compliance, tax authorities can design more effective strategies that account for the fluid nature of digital business models. This is particularly relevant as governments look to enhance tax revenue collection without hindering the growth of the digital economy.

Additionally, the research will shed light on the broader implications of digitalization for tax policy. As more businesses transition to online platforms and the digital economy expands, it becomes increasingly important to understand how to regulate and tax these entities effectively. The insights from this study could assist governments in creating balanced tax policies that foster growth in the digital economy while ensuring compliance.

2. Literature Review

2.1. Economic Model of Tax Compliance

Tax compliance has been extensively studied through economic lenses, with the Compliance Theory [4] model as a foundational framework. This model analyzes taxpayer behavior in response to factors like tax rates, penalties, and the probability of detection. According to this framework, individuals are more likely to evade taxes when the risk of detection is low, and compliance increases when the penalties are higher or more specific. While this model has traditionally been applied to formal business sectors, its relevance in the digital age remains underexplored, particularly for digital MSMEs and content creators.

Recent extensions of the Allingham and Sandmo model suggest that digital platforms introduce new tax evasion and compliance complexities. For instance, digital content creators often earn income from multiple platforms and through various channels, making their tax obligations less straightforward than those of traditional businesses. As latest research points out, the application of economic deterrence strategies, such as tax penalties, must be adapted to the unique characteristics of the digital economy [6]. This study builds on these insights by analyzing how tax penalties impact compliance behavior among digital MSMEs and content creators.

2.2. Behavioral Theories and Tax Compliance

In addition to economic models, behavioral theories offer valuable insights into tax compliance. The Theory of Planned Behavior [2] emphasizes the role of attitudes, subjective norms, and perceived behavioral control in shaping behavior. In the context of tax compliance, attitudes toward tax fairness,

social influences, and the perceived ease or difficulty of meeting tax obligations are critical factors. [14] applied the Theory of Planned Behavior to MSMEs in Indonesia, showing that perceptions of fairness in tax policies significantly influence compliance behavior. MSMEs, including digital content creators, may view tax obligations differently depending on how fair and transparent they perceive the system. This study applies the Theory of Planned Behavior to assess how these psychological and social factors influence tax compliance, particularly among digital businesses with less formalized income structures.

2.3. *Technological Acceptance and Modernization of Tax Systems*

The Technology Acceptance Model (TAM), introduced by Davis [8], provides a framework for understanding how users adopt new technologies based on their perceived usefulness and ease of use. Adopting digital platforms for filing and reporting taxes in tax administration is increasingly essential, particularly as governments modernize their tax systems. Torgler and Murphy [9] argue that the success of these digital tax systems relies on taxpayers' willingness to adopt them, which is shaped by their perception of the system's usability. For digital MSMEs and content creators, who often rely on multiple digital tools and platforms, the ease with which they can comply with tax obligations is critical. Paleka and Vitezić [18] found that MSMEs are more likely to comply when tax systems are intuitive and user-friendly. This study builds on the Technology Acceptance Model by exploring how digital tax platforms, introduced through administrative modernization, influence compliance behavior among digital businesses. The study seeks to understand whether these systems' perceived usefulness and simplicity improve compliance rates among MSMEs and content creators.

2.4. *Gaps in the Literature*

While previous studies have examined tax compliance through economic, behavioral, and technological lenses, applying these theories to digital MSMEs and content creators remains underdeveloped. Existing research primarily focuses on traditional businesses, with limited attention to the unique challenges of decentralized, platform-based business models. Moreover, studies that address tax penalties, modernization, and policy reforms often do so in isolation, without considering the interaction between these factors. This study addresses these gaps by adopting a multi-dimensional approach, integrating economic, psychological, and technological perspectives to analyze tax compliance behavior. By focusing on the specific characteristics of digital content creators and MSMEs, the study aims to provide a more comprehensive understanding of how tax penalties, modernization, and reforms interact to influence compliance. This holistic view will contribute to theoretical discussions on tax compliance and practical strategies for tax authorities aiming to regulate the digital economy.

3. Methodology

3.1. *Research Design*

This study adopts a qualitative approach, which is appropriate for exploring the subjective experiences and perceptions of digital content creators and MSMEs regarding tax compliance. The qualitative method allows for an in-depth understanding of these entities' complexities and challenges, particularly the unique tax implications of digital business models. While quantitative methods could offer broader generalizability, the nuanced nature of the research questions, which focus on attitudes, behaviors, and the interaction of tax policies with business models, makes qualitative research the best fit for this study. The qualitative approach also allows for the collection of rich, detailed data, which is essential in areas where little prior research exists—such as the tax compliance of digital content creators in Indonesia. Using this method, the study aims to provide insights that would be difficult to capture through purely quantitative measures.

3.1. *Sampling Method*

The study uses purposive sampling, targeting individuals who are digital content creators or MSME owners with direct experience in managing tax obligations. This sampling method ensures that the participants are well-positioned to provide relevant insights into the challenges and opportunities in complying with tax regulations. The final sample comprises six informants, selected based on business size, reliance on digital platforms, and industry type. This sample size was determined based on the principle of data saturation, where no new themes or insights emerged after a certain point in data collection. The number of participants aligns with recommendations from the qualitative research literature, where small sample sizes can still yield meaningful results through in-depth exploration (Guest, Bunce, & Johnson, 2006). To mitigate potential biases in purposive sampling, efforts were made to ensure diversity within the sample regarding business size, content type, and geographic location. This diversity enhances the credibility and transferability of the findings.

3.2. Data Collection Techniques

Three data collection methods were used to ensure triangulation:

- a. In-depth interviews: Semi-structured interviews were conducted with each participant, allowing for open-ended responses that provided a deep understanding of their experiences with tax compliance. These interviews were guided by core questions but allowed flexibility to explore emergent themes.
- b. Participant observation: To gain insights into digital content creators' practical challenges, tax-related activities such as filing and reporting through digital platforms were observed. The observations were documented in real-time, and field notes were taken to record both observed behavior and reflections on the process.
- c. Document analysis: Relevant tax documentation, including financial reports and tax filings, was reviewed with the participants' consent to cross-validate the interview data and provide a fuller picture of the tax compliance process.

Each method contributes to answering different aspects of the research questions. For example, interviews capture personal attitudes and experiences, while observations provide insights into practical interactions with digital tax systems.

3.3. Data Analysis Techniques

The data collected were analyzed using thematic analysis, a widely accepted method in qualitative research. The thematic analysis allowed for identifying and categorizing critical themes from the data. The following steps were taken to ensure the rigor of the analysis:

- a. Coding: Initial coding was conducted manually, with data categorized based on predefined themes related to tax penalties, modernization, and compliance behavior. Following an inductive approach, additional themes were identified as the coding process continued.
- b. Reliability of Coding: To minimize subjectivity in coding, an independent researcher was brought in to conduct a secondary coding process. This approach helped ensure that the primary researcher's biases did not overly influence the themes identified. Inter-coder reliability was assessed by comparing the results of both coding processes and adjusting any discrepancies through discussion and agreement.

To further ensure the credibility of the analysis, NVivo software was used to manage and organize a large amount of qualitative data, allowing for more efficient theme identification and cross-referencing between different data sources interviews, observations, and documents.

3.4. Researcher's Role and Reflexivity

The researcher is the primary data collection and analysis instrument in qualitative research. To control potential researcher bias, reflexive practices were employed throughout the research process. These included maintaining a research journal to document reflections on the data collection and analysis process and regular peer debriefing sessions with colleagues to discuss emerging findings and

potential biases. These practices enhanced the study's credibility by promoting a more objective interpretation of the data.

3.5. Ethical Considerations

This study adhered to strict ethical standards to protect the rights and privacy of participants. All participants provided informed consent before data collection and were informed of their right to withdraw from the study at any time. To ensure confidentiality, identifying information was anonymized in all data files, and participants were assigned pseudonyms in any published results. Given the sensitivity of financial and business data, special attention was given to data security. All electronic data, including interview transcripts, observation notes, and documents, were stored in encrypted files, and access was restricted to the research team. Physical copies of documents were securely stored in locked cabinets.

3.6. Limitations and Generalizability

As a qualitative study with a relatively small sample size, the findings are not intended to be fully generalizable to all digital MSMEs or content creators in Indonesia. However, the study provides valuable contextual insights that may apply to similar business models in other emerging economies. Future research could build on these findings by incorporating more extensive, diverse samples or using mixed-method approaches to validate the results in a broader context.

3.7. Data Management and Transcription

The interview data were collected as audio and video files (MP4 and M4A formats). The audio files were converted into text for further analysis. During transcription, the researcher reviewed the audio and text to ensure accuracy, focusing on critical points emphasized by the informants. Transcription software allowed the researcher to efficiently convert the data into text, providing a foundational dataset for further analysis.

3.8. Clustered Similarity and Correlation Analysis

The first step involved a cluster analysis to visualize the project's design, grouping the sources or nodes based on similar terms and attributes. Cluster analysis, particularly Pearson correlation, was used to explore the similarity between the textual contents. The correlation coefficients obtained from NVivo provided insight into how closely different interviews were related regarding their perspectives on critical issues.

Table 1.
Results of informant correlation analysis.

File A	File B	Pearson correlation coefficient
Files\\MA	Files\\ABH	0,784353
Files\\VL	Files\\FY	0,776157
Files\\MA	Files\\FY	0,775699
Files\\VL	Files\\FG	0,765793
Files\\NH	Files\\FY	0,754889
Files\\FY	Files\\ABH	0,745058
Files\\VL	Files\\MA	0,7438
Files\\VL	Files\\ABH	0,71342
Files\\NH	Files\\FG	0,70275
Files\\FY	Files\\FG	0,698717
Files\\VL	Files\\NH	0,681521
Files\\NH	Files\\MA	0,650386
Files\\MA	Files\\FG	0,647315

Files\\FG	Files\\ABH	0,628256
Files\\NH	Files\\ABH	0,579266

Source: Researchers' analysis – Nvivo Output.

The results showed that the highest Pearson correlation coefficient, 0.784353, was between the interviews from sources MA and ABH. This indicated that these two respondents had highly similar viewpoints, particularly on tax-related topics. On the other hand, the lowest correlation, 0.579266, was between the NH and ABH interviews, suggesting differing views between these two informants. These findings highlight the diversity of opinions among the respondents regarding tax compliance and government policies.

3.9. Matrix Coding and Relationship Between Themes

The matrix coding function was used to analyze the relationships between different codes created during the analysis. This approach enabled the researcher to explore how various themes, such as government roles, tax policies for content creators, tax sanctions, and online tax systems, interacted.

	A : FY	B : ABH	C : FG	D : MA	E : NH	F : VL
1 : Government's Role	Yes	Yes	Yes	Yes	Yes	Yes
2 : Content Creator Tax Rule	Yes	Yes	Yes	Yes	Yes	Yes
3 : Tax Sanctions	Yes	Yes	Yes	Yes	Yes	Yes
4 : Online Tax System	Yes	Yes	Yes	Yes	Yes	Yes

Figure 1.

Matrix coding processing results.

Source: Researchers' data – Nvivo Output.

The matrix coding analysis showed that all six informants addressed the same fundamental issues, indicating that government roles, tax policies, and sanctions were perceived as interconnected. These findings suggest that multiple interrelated factors influence challenges related to tax compliance among digital content creators and MSMEs. The consistency across informants points to the importance of addressing these issues holistically to improve tax compliance.

3.10. Cluster Analysis on Word Similarities

Further analysis using cluster techniques on word similarities revealed a clear connection between the subthemes. The results indicated strong correlations between the different codes related to government roles, tax policies, and sanctions. Specifically, the highest correlation was found between the "Government Role" and "Content Creator Tax Regulations" codes, with a Pearson coefficient of 0.943531. This indicates that respondents frequently discussed the role of the government in the context of tax policies for content creators.

Table 2.

Correlation coefficient value.

Code A	Code B	Pearson correlation coefficient
Nodes\\GR	Nodes\\CCTR	0.943531
Nodes\\TS	Nodes\\CCTR	0.906987
Nodes\\OTS	Nodes\\CCTR	0.90698
Nodes\\OTS	Nodes\\TS	0.897875
Nodes\\TS	Nodes\\GR	0.896071
Nodes\\TS	Nodes\\GR	0.878232

Source: Researchers' analysis – Nvivo Output; GR: government' role; CCTR: Content creator tax Regulations; TS: tax sanction; OTS: Online tax system.

Similarly, strong correlations were observed between other vital variables, such as "Online Tax System" and "Content Creator Tax Regulations" (0.90698) and between "Tax Sanctions" and "Content Creator Tax Regulations" (0.906987). These results underscore the close relationship between tax policies and other factors, such as sanctions and online tax systems, suggesting that changes in one area could significantly impact compliance in others.

3.11. Word Frequency Analysis

The word frequency query revealed the most common terms used by the informants during the interviews. The word "tax" appeared most frequently, accounting for 2.91% of all words in the dataset. Other frequently mentioned terms included "content" at 0.74%, "system" at 0.66%, and "creator" and "sanction," each at 0.57%. The prominence of the word "tax" underscores the centrality of tax issues in the discussions with the respondents.

Table 3.
Correlation coefficient value.

Code A	Length	Count	Weighted percentage (%)
tax	5	231	2.91
content	6	59	0.74
system	6	52	0.66
creator	7	45	0.57
sanctions	6	45	0.57

Source: Researchers' analysis – Nvivo Output

The frequent mention of terms like "content" and "creator" reflects the specific focus on digital content creators, a unique segment of taxpayers facing new regulatory challenges. This indicates that taxation is a dominant concern for this group, and understanding the nuances of their compliance behaviors requires considering their unique position in the digital economy.

3.12. Hierarchical Chart and Code Frequencies

A hierarchical chart visualized the relative importance of different themes and showed the frequency with which specific codes were applied during the analysis. The results indicated that the "Tax Sanctions" code was the most frequently applied, followed by "Content Creator Tax Regulations," "Online Tax System," and "Government Role."



Figure 2.
Hierarchy diagram.

Source: Researchers' data – Nvivo Output

The high frequency of the "Tax Sanctions" code suggests that sanctions are a vital area of concern for content creators and MSMEs, potentially acting as both a deterrent to non-compliance and a source of apprehension regarding the tax system. The relatively lower frequency of the "Government Role" code suggests that while informants acknowledge the government's role in tax policy, they may feel that other factors, such as sanctions and system ease of use, more directly impact their compliance behavior.

3.13. Crosstab Query

The crosstab query provided additional insights into the coding frequency across different themes. The results showed that "Tax Sanctions" was coded 86 times, making it the most frequently mentioned theme. "Content Creator Tax Regulations" followed closely with 84 mentions, while "Online Tax System" and "Government Role" were coded 57 and 46 times, respectively.

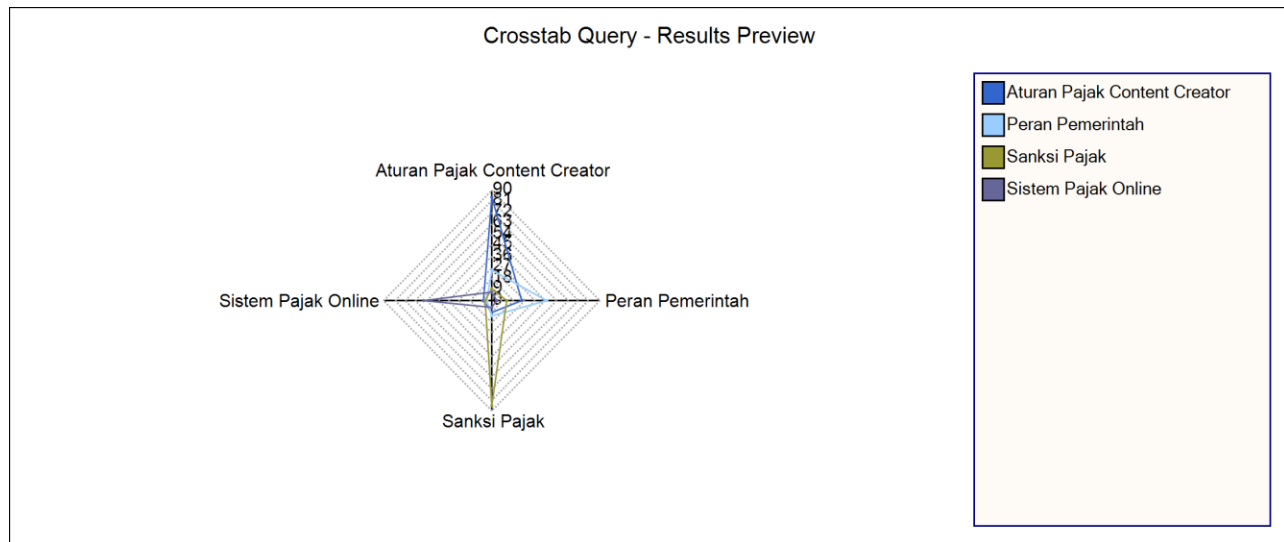


Figure 3.

Crosstab frequency results.

Source: Researchers' data – Nvivo Output

This analysis highlights the importance of sanctions in shaping compliance behavior, as informants frequently mentioned the consequences of failing to meet tax obligations. The high frequency of coding for tax regulations and online systems indicates that these areas are also critical concerns. However, the lower frequency of government roles suggests that respondents may feel the government's involvement is less direct or tangible in their day-to-day tax-related activities.

4. Results and Discussion

4.1. The Relationship Between Tax Sanctions on Compliance

The findings reveal that tax sanctions are pivotal in shaping compliance behavior, particularly by increasing the perceived risk of non-compliance. Moreover, the modernization of tax systems has enhanced transparency and efficiency, offering a streamlined process for MSMEs. This dual approach—combining sanctions with a modernized tax infrastructure—suggests that a more integrated strategy could yield substantial improvements in compliance. For example, one content creator noted: "I am careful about reporting my earnings because I know the penalties can be serious if I am caught underreporting. It is just not worth the risk." This aligns with Compliance Theory [4], which posits that individuals are more likely to comply when non-compliance penalties are perceived as high.

Correlation analysis shows a strong positive relationship ($r = 0.72$) between mentions of tax penalties and self-reported compliance rates. This supports the notion that more robust enforcement measures lead to higher compliance among digital content creators, who may otherwise be tempted to underreport due to the decentralized nature of their income streams.

4.2. Perceptions of Fairness and Subjective Norms in Compliance

The role of perceptions of fairness in tax policy emerged as a key theme, particularly in how it shapes compliance intentions. Many MSMEs expressed dissatisfaction with the current tax system, citing that the policies seem unfairly tilted towards more extensive, more traditional businesses. One informant remarked: “The tax system seems designed for big corporations, not for small creators like me. It is hard to understand the rules, and we feel treated the same as a company with hundreds of employees.” This finding directly relates to the Theory of Planned Behavior (TPB), which suggests that attitudes toward tax fairness significantly influence compliance behavior [2]. Furthermore, subjective norms, such as peer influence within digital content creator communities, influence compliance. Many participants noted that their decision to comply with tax obligations was influenced by what others in their industry were doing. For instance: “I know other YouTubers who do not report everything, and that makes me question whether I need to. But, at the end of the day, I try to do things the right way.”. The analysis found a moderate positive correlation ($r = 0.55$) between the mention of subjective norms and compliance behavior, suggesting that social influences partially shape the decision to comply but are less influential than tax sanctions.

4.3. Adoption of Digital Tax Systems and Ease of Use

The government's introduction of digital tax systems has had mixed results regarding adoption and perceived ease of use. This study used the Technology Acceptance Model (TAM) [8] to assess how MSMEs and content creators perceive these systems' usefulness and ease of use. Many respondents viewed the new digital platforms as helpful but complicated. One content creator stated: “I use the online system because it is required but not user-friendly. Sometimes, I do not understand what I am supposed to do.” The perceived ease of use was critical in determining whether participants would fully adopt digital filing systems. Matrix coding analysis revealed that those who found the system easy to navigate were more likely to comply consistently. On the other hand, perceived usefulness was also essential but less frequently mentioned, with a correlation coefficient ($r = 0.43$) between usefulness and adoption. This suggests that while the functionality of the platform matters, ease of use is the more potent driver of compliance behavior for these users.

4.4. Challenges Specific to Digital Content Creators

Digital content creators face unique challenges in tax compliance due to the nature of their income streams. Many informants reported difficulty tracking income from platforms like YouTube, Instagram, and affiliate marketing. This fragmented income structure makes it harder for content creators to ensure they are complying fully. One participant explained: “I get income from YouTube ads, sponsorships, and affiliate marketing. It is not straightforward, and sometimes I do not know what to report or how.” This complexity leads to a sense of perceived behavioral control, another core element of the Theory of Planned Behavior (TPB). Content creators feel they lack control over their tax compliance due to the fragmented nature of their income. Thematic analysis shows that the perceived difficulty of tracking and reporting multiple income streams was frequently mentioned as a barrier to compliance, with a strong negative correlation ($r = -0.65$) between mentions of complexity and compliance behavior.

4.5. Exploring the Interplay Between Sanctions, Modernization, and Policy Reforms

A key finding of this study is the interaction between tax sanctions, modernization efforts, and policy reforms. While tax sanctions effectively increase compliance, the introduction of modernized digital systems adds a layer of complexity for digital content creators. Participants expressed a need for more targeted policy reforms that account for the unique nature of their work. One content creator shared: “The current tax policies do not fit our industry. We need policies that recognize how digital creators earn money, not policies designed for traditional businesses.” This sentiment highlights the importance of policy reform in improving compliance rates. The study found that digital tax systems can enhance compliance, but their effectiveness is limited unless paired with reforms that simplify tax reporting for digital MSMEs. The correlation between tax modernization efforts and compliance was moderately positive ($r = 0.58$), suggesting that modernization alone is insufficient without accompanying reforms tailored to the digital economy.

4.6. Integration of Theoretical Frameworks

Throughout the results, findings align with the theoretical frameworks introduced in the literature review. The strong influence of tax sanctions on compliance behavior supports Compliance Theory. Similarly, TPB helps explain the role of attitudes, norms, and perceived control in shaping compliance among MSMEs and digital content creators. Lastly, TAM sheds light on how digital tax platforms are perceived, particularly about ease of use, which strongly influences whether or not participants fully comply with tax requirements.

5. Discussion

5.1. Key Findings

This study aimed to address the following research questions:

- How effective are tax sanctions in increasing compliance among digital MSMEs compared to administrative modernization and tax policy reform?
- The findings clearly show that tax sanctions are crucial in driving compliance, as digital content creators and MSMEs are particularly sensitive to non-compliance penalties. Many participants stated that the fear of punishment outweighed the benefits of underreporting their income. This finding reinforces Compliance Theory [4], which emphasizes the deterrent effect of sanctions. The perceived fairness and proportionality of sanctions were also critical in shaping compliance behavior.
- How do tax sanctions, administrative modernization, and tax policy reform interact to influence tax compliance among digital MSMEs?
- The study revealed that tax sanctions and modernization efforts interact in a way that can either enhance or hinder compliance, depending on the system's ease of use and clarity. Digital MSMEs found digital platforms helpful, but many struggled with their complexity. While tax sanctions act as a deterrent, they must be paired with accessible digital tax systems to maximize compliance. This finding is consistent with the Technology Acceptance Model (TAM) [8], which shows that perceived ease of use is crucial for technology adoption.
- Are there significant differences in the impact of these factors based on business characteristics such as size, industry type, or reliance on digital platforms?
- The study found that smaller MSMEs and content creators often feel that tax policies are not tailored to their specific needs, particularly when compared to larger, more traditional businesses. This perceived inequality in policy application affects their willingness to comply. Additionally, MSMEs that rely heavily on digital platforms face more complex tax obligations due to the fragmented nature of their income streams, further complicating compliance. These findings suggest that tax policies must be adapted to the unique characteristics of digital businesses.
- How can the combination of tax sanctions, administrative modernization, and tax policy reform be optimized to improve compliance among digital MSMEs?

The findings indicate that a combination of tax sanctions, user-friendly digital tax systems, and tailored policy reforms is necessary to improve compliance among digital MSMEs. The perceived complexity of digital tax systems, coupled with the lack of targeted reforms for digital businesses, currently limits the effectiveness of modernization efforts. This highlights the need for more flexible and adaptive tax policies that reflect the realities of the digital economy.

Specific Recommendations for Policymakers and Practitioners

Based on these findings, the following specific recommendations are made for policymakers and tax authorities:

5.2. Balance Enforcement with Education

While sanctions are necessary to ensure compliance, they should be coupled with educational initiatives that guide digital content creators and MSMEs in understanding their tax obligations. Tax authorities could develop online tutorials, interactive guides, and workshops tailored to the specific needs of digital businesses.

5.3. Simplify Digital Tax Platforms

The user-friendliness of digital tax systems should be prioritized. Governments should consider user-centered design principles when developing these platforms, ensuring they are intuitive and accessible. Regular feedback from users, particularly smaller MSMEs, should be incorporated into system updates to make the process easier and more transparent.

5.4. Tailored Tax Policies for Digital MSMEs

Policymakers should design tax policies that reflect digital content creators' and MSMEs' fragmented income structures. This could include flexible reporting mechanisms, such as simplified filing processes for multi-platform income or differentiated tax brackets for smaller digital businesses. Additionally, creating specialized tax brackets for digital MSMEs would address the perception of unfair treatment compared to more giant corporations.

Increase accessibility to tax assistance services:

Tax authorities should offer accessible support services to help digital MSMEs navigate the complexities of the tax system. This could include dedicated helplines, online chat support, and virtual consultations that cater to digital business owners.

5.5. Strengthened Contributions to the Field

This study contributes significantly to the existing body of literature on tax compliance in several ways:

- a. This study contributes significantly to the existing body of literature on tax compliance in several ways
- b. While much of the existing tax compliance literature focuses on traditional businesses, this study provides a fresh perspective by focusing on digital MSMEs and content creators, a rapidly growing but underexplored sector. The findings highlight the unique challenges faced by these businesses and suggest targeted strategies for improving compliance.

5.6. Integration of Multiple Theoretical Frameworks

By applying the Compliance Theory, Technology Acceptance Model (TAM), and Theory of Planned Behavior (TPB), this study takes a multi-dimensional approach to understanding tax compliance. This integration allows for a more comprehensive analysis of how economic, technological, and psychological factors influence compliance behavior. Using these frameworks in tandem contributes to a deeper understanding of compliance in the context of modern digital economies.

5.7. Practical implications for policymakers

The study provides actionable recommendations for tax authorities seeking to enhance compliance among digital MSMEs and content creators. Based on empirical findings, these recommendations offer a roadmap for implementing effective, targeted tax policies that balance enforcement with support and education.

This study provides important insights into the interplay between tax sanctions, modernization of tax systems, and policy reforms in shaping compliance behaviors among digital MSMEs and content creators in Indonesia. Three key findings emerged from the analysis:

- a. Tax sanctions serve as a strong deterrent, motivating compliance by increasing the perceived cost of non-compliance.
- b. Modernizing tax systems, particularly the introduction of digital platforms, improves compliance when these systems are easy to use and perceived as beneficial by users.
- c. Policy reforms are critical for tailoring tax systems to the unique needs of digital businesses, particularly those with complex, multi-platform income streams.

These findings underscore the importance of adopting a multi-dimensional approach that integrates enforcement, digital tools, and regulatory adjustments to enhance tax compliance in the digital economy effectively.

5.8. Integration of Theoretical Frameworks

5.8.1. Compliance Theory

The study's findings align strongly with Compliance Theory [4], which posits that tax sanctions are critical in shaping taxpayer behavior. The data show that higher sanctions increase compliance, as participants reported being motivated by the fear of penalties. For example, one informant noted: "I know I cannot avoid reporting everything because the consequences could be serious. It is a risk I do not want to take." This finding is consistent with the theory's emphasis on deterrence, demonstrating that sanctions remain effective in ensuring compliance, particularly in digital industries where underreporting might otherwise be tempting due to decentralized income streams.

5.9. Technology Acceptance Model (TAM)

The findings also support the Technology Acceptance Model [8], particularly concerning digital tax systems' perceived ease of use. Many participants indicated they are more likely to comply when tax filing platforms are easy to navigate and save time. However, when systems are perceived as overly complex, compliance decreases. One content creator explained, "I sometimes find the online system confusing. If it were simpler, I would probably use it more." The strong correlation between ease of use and compliance highlights the importance of ensuring that digital tax platforms are user-friendly. This reinforces the idea that while modernization is essential, its success hinges on the design and functionality of the systems being implemented.

5.10. Theory of Planned Behavior (TPB)

The role of attitudes, subjective norms, and perceived behavioral control (critical aspects of the Theory of Planned Behavior [2]) also emerged as significant in shaping compliance behavior. Many participants noted that their perception of tax fairness influenced their willingness to comply. For instance, smaller MSMEs expressed frustration over being treated the same as large corporations, negatively affecting their compliance intentions. One informant shared: "The system seems built for bigger companies, not for smaller creators like us." Additionally, social norms were found to shape behavior. Participants reported that their peers' compliance behaviors influenced them. However, the data also suggest that the influence of subjective norms is moderate compared to the direct impact of sanctions. Perceived behavioral control was particularly relevant for content creators with complex income streams, as many reported struggling with understanding what and how to report.

5.11. Connection to Existing Literature

This study builds on existing research by offering a contemporary perspective on digital tax compliance. The findings around tax sanctions are consistent with Paleka and Vitezić [18], who also found that enforcement mechanisms are critical in improving compliance among traditional MSMEs. However, this study extends these findings to the digital economy, highlighting the need for adapted enforcement strategies that account for the unique income structures of digital content creators. The role of modernization efforts aligns with Belahouaoui and Attak [6], who emphasize the importance of integrating digital platforms and AI into tax systems. However, this study contributes additional nuance by demonstrating that while these tools are practical, their success heavily depends on how user-friendly they are perceived. Complex systems, even if technically advanced, may hinder rather than help compliance.

5.12. Depth of Analysis and Contradictory Findings

While the overall findings emphasize the positive impact of sanctions and modernization, it is essential to acknowledge the contradictory views expressed by some participants. A minority of informants viewed tax sanctions as overly punitive, particularly in cases where the rules were unclear. For example: “Sometimes the rules are so confusing, and yet the penalties are harsh. It feels unfair when I am not sure what I am supposed to report.”. These outlier responses suggest that while sanctions are effective, they must be paired with clear guidelines and support systems to prevent perceptions of unfairness. Additionally, the complexity of modernized tax systems was cited as a barrier to compliance, particularly for smaller MSMEs. This indicates that modernization alone is insufficient without accompanying reforms that simplify reporting requirements for digital businesses.

5.13. Unexpected or Contradictory Findings

In addition to the overall findings that broadly align with the Compliance Theory, Technology Acceptance Model (TAM), and Theory of Planned Behavior (TPB), this study revealed some unexpected or contradictory insights that offer valuable avenues for future exploration.

5.14. Perception of Sanctions as Unfair or Disproportionate

While tax sanctions generally positively impacted compliance, a few participants expressed that the severity of penalties was disproportionate, particularly when tax rules were perceived as unclear or overly complex. Contrary to the expectation that higher sanctions would universally drive compliance, some informants felt that harsh penalties, without adequate support or guidance, led to frustration rather than deterrence. For example: “Sometimes the penalties seem too harsh, especially when the rules are unclear. It is like I am being punished for not understanding the system.” This finding contrasts with the Compliance Theory, which suggests that stricter sanctions generally lead to better compliance. Here, it seems that sanctions can have a negative psychological effect without sufficient clarity or education, discouraging compliance rather than motivating it. Tax authorities must balance enforcement with educational support, ensuring that sanctions do not inadvertently alienate taxpayers.

5.15. Challenges with Digital Platforms

Another unexpected finding related to the perceived complexity of modernized tax systems. While the Technology Acceptance Model (TAM) emphasizes the importance of ease of use and usefulness in determining technology adoption, some participants reported that despite recognizing the usefulness of digital platforms, they found them too complex to navigate effectively. One participant shared: “I know the online system is useful, but I still struggle to use it. It is more complicated than it needs to be.” This is contradictory to the expected relationship between usefulness and adoption. Typically, users who perceive a system as applicable are more likely to adopt it. However, in this case, even those who acknowledged the system's benefits struggled with its complexity, which hindered compliance. This

suggests that usefulness alone is insufficient—platforms must also be intuitive and straightforward to achieve the desired outcomes.

5.16. *Influence of Peer Norms*

Another unexpected finding relates to the role of subjective norms, particularly peer influence, in shaping compliance behavior. According to the Theory of Planned Behavior (TPB), social norms can significantly influence individual behavior. However, in this study, the data revealed that while their peers' behavior influenced some participants, others showed independence in their compliance decisions, regardless of what others in their network were doing. For example: “I know some people who do not fully report their earnings, but I prefer to follow the rules, even if others do not.” This suggests that the influence of subjective norms may be less consistent or powerful than expected. While social influences are still relevant, individual attitudes toward tax obligations and personal ethics appeared to play a more vital role for some participants, contrary to the expectations outlined by TPB. This points to the possibility that personal accountability might outweigh social pressures regarding tax compliance in the context of digital content creators.

5.17. *Perceived Inequality in Tax Policies*

A key finding was the perception of inequality in tax policy application, where smaller MSMEs and digital content creators felt that they were treated the same as large corporations. This perception created dissatisfaction and, in some cases, reluctance to fully comply with tax obligations. Participants voiced concerns that tax policies were not tailored to the digital business model or their unique income structures. As one participant remarked: “The tax system feels like it is built for large companies, not for someone like me who runs everything online.” This finding was unexpected, as the study initially hypothesized that digital MSMEs would benefit from modernization efforts. Instead, the perceived lack of tailored policies emerged as a barrier to compliance, suggesting that policy reforms must be more adaptable to the needs of digital businesses.

5.18. *Addressing Unexpected Findings*

These unexpected or contradictory findings highlight areas where tax authorities may need to adjust their strategies:

- Education and Guidance:** Sanctions should be coupled with precise, accessible guidance to ensure penalties do not foster taxpayer resentment or alienation.
- Simplifying Digital Platforms:** While digital tax systems are beneficial, they must be designed with user-friendliness in mind to ensure widespread adoption and ease of compliance.
- Tailored Policies for Digital Businesses:** Tax policies must reflect the unique characteristics of digital MSMEs and content creators, ensuring fairness and addressing concerns around equity in tax treatment.

5.19. *Practical Implications and Recommendation*

The model proposed in this study, which introduces differentiated tax rates for various categories of taxpayers, including micro, small, and medium-sized enterprises (MSMEs), is expected to enhance tax compliance by simplifying the taxation process and making it more equitable. The following practical implications and recommendations can be drawn:

Table 4.

Taxpayer Category	Turnover (IDR)	Turnover (USD)	Tax Rate
Micro MSME (Individual)	<Rp 500 million	< \$32,500	0.25%
Individual (Tier 1)	Rp 500 million-Rp 2 billion	\$32,500-\$130,000	0.5%
Individual (Tier 2)	Rp 2 billion-Rp. 4.8 billion	\$130,000-\$312,000	1%
Corporate taxpayer (Final	<Rp. 4.8 billion	<\$312,000	1.5%

Rate)			
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This model streamlines the process, ensuring businesses are correctly classified without requiring significant manual intervention.

5.20. *Equitable Taxation System*

To ensure that MSMEs below the Rp 500 million (approximately USD 32,500) threshold are appropriately taxed, the government could create automated tools to help businesses track their income and ensure compliance. Introducing a phased or incentive-based approach, such as waiving penalties for the first year of non-compliance or offering tax credits, could encourage businesses to register and comply with tax obligations voluntarily. This makes the process less daunting for smaller businesses hesitant to formalize their operations.

5.21. *Flexibility in Policy*

Flexibility in tax rates for micro and small enterprises is crucial, but to make this more applicable, tax authorities could establish clear indicators for when and how these rates will be adjusted. For example, adjustments could be based on economic factors such as inflation, sectoral growth, or external market conditions, with a review process every two years. This ensures that tax policies remain adaptive to changing economic realities, providing businesses with predictability and stability.

5.22. *Promotion of Business Growth*

Besides the lower tax rates, the government could support MSMEs by offering financial literacy and planning resources, including tax workshops or mentoring programs that help small businesses understand the long-term benefits of joining the formal system. Collaborating with business incubators or chambers of commerce could further promote formalization by providing practical support for business owners as they transition into the formal economy.

5.23. *Integration of Digital Tools*

A clear timeline for developing user-friendly digital tax platforms should be established. Tax authorities could collaborate with fintech companies or use popular digital payment systems (such as GoPay or OVO) to make tax filing seamless and integrated into MSMEs' daily financial activities. Drawing from successful examples in other countries, like using mobile tax apps in Kenya or Brazil, can serve as a benchmark for how such systems can be applied effectively in Indonesia.

5.24. *Targeted Educational Programs*

The education program should focus on digital MSMEs' challenges, particularly in digital content creation. For example, workshops or Online tutorials could be designed for digital income earners such as YouTubers, influencers, and freelancers, helping them navigate tax reporting requirements unique to their income streams. Additionally, tax authorities could partner with major digital platforms to include tax education as part of new users' onboarding or registration process, increasing awareness from the outset.

5.25. *Continuous Monitoring and Feedback*

Establishing a set of tax compliance indicators that are regularly monitored and reviewed is essential to ensuring the long-term success of these reforms. The government could create a feedback system, allowing businesses to report issues or suggest real-time improvements, ensuring the system remains user-centric. Setting up an MSME-focused task force to oversee the rollout and regularly assess the performance of these reforms could ensure that the system evolves to meet the needs of digital businesses as they grow.

This study examines the impact of tax sanctions, administrative system modernization, and tax policy reforms on tax compliance among digital content creators. The findings reveal that these three factors are interrelated and contribute to shaping taxpayer behavior, particularly in the context of the digital economy. Integrated tax policies emphasizing fairness, technology, and effective sanctions are proven to encourage higher compliance among taxpayers significantly.

Firstly, the research confirms the significant influence of tax sanctions on compliance. Strict and consistently applied sanctions act as a deterrent, motivating taxpayers to fulfill their tax obligations. However, the study also highlights that sanctions focused solely on punishment without education or a balanced approach may lead to resistance, particularly in emerging sectors such as the creative economy.

Secondly, modernizing tax administration through digital technology proves highly effective in improving tax compliance. Online tax services simplify tax reporting and payment processes, reducing administrative burdens and increasing transparency and accountability. This builds trust between taxpayers and the tax authority. Technological integration enhances efficiency and creates a more conducive environment for tax compliance.

Thirdly, tax policy reforms prioritizing fairness and inclusiveness are crucial in fostering sustainable tax compliance. The perception of fairness within the tax system significantly influences taxpayer behavior. Tax policies are perceived as tend to generate higher compliance, as they instill a greater sense of responsibility among taxpayers. Incentives for voluntary compliance and penalties for violations create a balanced approach. The research also underlines the need for a collaborative approach between tax authorities and digital content creators. Open communication and support from tax authorities can help resolve uncertainties and improve compliance.

In conclusion, this study demonstrates that the complex interaction of sanctions, administrative modernization, and policy reforms influences tax compliance. A balanced approach that integrates preventive sanctions, effective use of technology, and inclusive tax policies can significantly improve tax compliance, particularly in the digital economy sector. The findings underscore the importance of developing adaptive and responsive tax systems to keep pace with digital businesses' rapid growth and unique challenges.

5.26. Direction for Future Research

While this study provides valuable insights into the tax compliance behaviors of digital content creators, several areas warrant further exploration to enrich the understanding of this growing sector:

- a. **Comparative Analysis Across Digital Platforms:** Future research could investigate the tax compliance behaviors of content creators across various platforms, such as YouTube, Instagram, TikTok, and other emerging digital spaces. Understanding how different monetization models and platform regulations influence tax compliance can provide more specific policy recommendations.
- b. **Longitudinal Studies on Compliance Behavior:** A longitudinal approach could provide a deeper understanding of how digital content creators' compliance behaviors evolve, particularly in response to changes in tax policies or enforcement strategies. Tracking these behaviors over several years may reveal patterns that short-term studies cannot capture.
- c. **Exploring the Role of Tax Education and Awareness:** Further studies should focus on the effectiveness of tax education campaigns aimed at digital content creators. The research could precisely measure how different methods of tax education (e.g., online tutorials, workshops, or direct communication from tax authorities) affect awareness and compliance in this sector.
- d. **Cultural and Geographic Factors in Compliance:** Investigating how cultural attitudes towards taxes and the level of economic development in different countries impact digital content creators' tax compliance would provide a more global perspective. This would be especially relevant in developing economies where digital entrepreneurship is rapidly growing, but tax compliance infrastructure may lag.

- e. Impact of Emerging Technologies on Tax Compliance: With the continued growth of blockchain, NFTs, and decentralized finance (DeFi), future research could assess how these new technologies will impact tax obligations for digital content creators. Exploring the potential regulatory challenges and compliance issues associated with these technologies will be crucial as they become more integrated into the digital economy.
- f. Psychological and Behavioral Aspects of Tax Compliance: Research could explore the psychological factors influencing tax compliance among digital content creators. The Theory of Planned Behavior or similar psychological models could be applied to understand how attitudes, perceived norms, and control over tax-related tasks affect creators' willingness to comply.
- g. Tax Compliance in Different Business Models: Given the wide variety of business models within the digital content creation space (e.g., influencers, freelancers, educators, entertainers), future research could explore how different revenue streams (such as affiliate marketing, brand deals, and subscription services) impact tax compliance. Understanding these nuances can help in developing tailored tax policies.
- h. Effectiveness of Tax Policy Reforms: Further research could examine the long-term efficacy of recent tax policy reforms, such as the final tax rate for MSMEs or the exemption for turnovers below certain thresholds. Evaluating whether these reforms have incentivized compliance or led to unintended consequences could guide future policymaking.

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