The Es Accounting and Finance
Vol. 3, No. 03, July 2025, pp. 260-270
ISSN: 2985-7139, DOI: 10.58812/esaf.v3i03

The Influence of Behavioral Biases on Individual Taxpayer Compliance Decisions in Indonesia

Loso Judijanto[1], William Indra S. Mooduto[2], Retnoning Ambarwati[3], Albert Herlambang[4]
[1] IPOSS Jakarta
[2] Universitas Bina Mandiri Gorontalo
[3] STIE Wijaya Mulya Surakarta
[4] Sekolah Tinggi Ilmu Ekonomi Eka Prasetya

Article Info

Article history:

Received Jul, 2025
Revised Jul, 2025
Accepted Jul, 2025

Keywords:

Behavioral Bias;
Financial Literacy;
Individual Taxpayers;
Tax Compliance

ABSTRACT

This study looks into how financial literacy and behavioral bias affect Indonesian individual taxpayers' decisions about tax compliance. A standardized questionnaire with a Likert scale (1–5) was used to gather quantitative data from 250 respondents. SPSS version 25 was used for the study, and the data's robustness was confirmed using validity, reliability, and traditional assumption tests. The results of multiple linear regression analysis showed that behavioral bias significantly and negatively affects tax compliance, suggesting that cognitive distortions including mental accounting, loss aversion, and overconfidence lower the likelihood of compliance. On the other hand, financial literacy has a favorable and noteworthy impact, indicating that those who are financially literate are more likely to comprehend their tax responsibilities and voluntarily comply. 43.2% of the variance in tax compliance decisions may be explained by the regression model. These results highlight how crucial it is to remove psychological obstacles and improve taxpayer education in order to increase voluntary compliance in Indonesia.

Corresponding Author:

Name: Loso Judijanto
Institution: IPOSS Jakarta
Email: losojudijantobumn@gmail.com

1. INTRODUCTION

Tax compliance remains a critical issue in developing countries, including Indonesia, where the tax ratio is relatively low compared to other nations in the same economic bracket. The government heavily relies on tax revenue to fund national development, making voluntary tax compliance by individual taxpayers a cornerstone of fiscal sustainability. Despite various reforms and digital innovations implemented by the Indonesian Directorate General of Taxes (DGT), challenges in encouraging compliance persist. Traditional approaches have focused on deterrence, enforcement, and simplification of tax procedures. However, recent studies suggest that psychological and cognitive factors, including behavioral biases and financial literacy, also play a significant role in influencing taxpayer decisions [1]. Taxpayer knowledge and awareness significantly impact compliance, with increased understanding positively influencing voluntary tax behavior, indicating that

educational initiatives could be instrumental in enhancing compliance [2], [3]. Moreover, the modernization of tax administration systems—such as streamlined procedures and technological integration—has been shown to reduce complexity and improve the taxpayer experience, further encouraging compliance [2]. Nonetheless, issues such as complex regulations and low trust in tax authorities continue to hamper compliance efforts, suggesting a need for simplification and increased institutional transparency [4]. While sanctions and enforcement remain relevant, their effectiveness is significantly amplified when integrated with strategies to raise awareness and build taxpayer trust [3], [5]. Altogether, these findings underscore the necessity of a multifaceted approach that combines regulatory reform, technological innovation, education, and psychological insight to improve tax compliance in Indonesia.

Behavioral economics offers valuable insights into how cognitive distortions—such as overconfidence, mental accounting, and loss aversion—can significantly affect financial decision-making, including tax compliance. Taxpayers do not always behave in a purely rational manner; rather, they are influenced by heuristics and behavioral biases that may lead to non-compliant behavior, either deliberately or unconsciously. Overconfidence can lead individuals to underestimate the risks associated with non-compliance, such as penalties or audits, resulting in a higher likelihood of tax evasion [6], [7], while unrealistic optimism—another form of overconfidence—may cause taxpayers to believe they are less likely to be caught or penalized compared to others [8]. Mental accounting, in which individuals cognitively categorize and treat money differently depending on its source or intended use, may lead to irrational financial decisions, such as underreporting income or misallocating funds for tax payments [7]. In this context, taxpayers may rationalize non-compliance by mentally segregating tax obligations from other financial responsibilities, thereby reducing the perceived importance of fulfilling those obligations [9]. Furthermore, loss aversion—the tendency to prefer avoiding losses over acquiring equivalent gains—can drive individuals to view tax payments as a loss, prompting strategies aimed at minimizing this perceived loss [6], and may also lead to resistance against tax increases or policy changes, as individuals focus more on potential losses than on the collective benefits of compliance [10]. Altogether, these cognitive distortions highlight the importance of incorporating behavioral insights into the design of tax policy and taxpayer education to improve compliance outcomes.

Financial literacy, defined as the ability to understand and effectively use various financial skills such as personal financial management, budgeting, and investing, plays a crucial role in enhancing taxpayers' awareness, responsibility, and ultimately their tax compliance. Individuals with higher financial literacy are better equipped to comprehend the implications of tax compliance, recognizing not only their legal obligations but also the broader benefits of contributing to national development. This understanding fosters more responsible financial behavior and increases the likelihood of fulfilling tax duties. Tax literacy, as a specific component of financial literacy, is particularly vital for helping individuals understand their tax obligations and the advantages they bring to public services and infrastructure [11], [12]. Studies have shown that improved tax literacy has a positive impact on compliance rates, as it cultivates greater awareness and acceptance of the tax system [13]. Moreover, government initiatives and structured educational programs significantly contribute to improving both financial and tax literacy, reinforcing effective personal financial management and encouraging voluntary tax compliance [14]. Ultimately, financially literate individuals are more likely to manage their income, spending, and taxes responsibly, leading to more consistent and informed compliance behavior [15].

5 A Brief Study On Recent Trends in Financial Literacy

Given the limited empirical evidence on how behavioral bias and financial literacy jointly influence tax compliance decisions in Indonesia, this study seeks to fill the research gap by analyzing these factors through a quantitative lens.

2. LITERATURE REVIEW

2.1 Tax Compliance

Tax compliance is influenced by economic, psychological, and social factors, making it more complex than what traditional economic models like those of Allingham and Sandmo can explain [16]. These models focus on rational choices based on audit risks and penalties but often fail to account for high voluntary compliance rates. In Indonesia, low compliance is driven by complex regulations, limited understanding, and weak enforcement. Recent studies emphasize the role of behavioral and socio-psychological factors such as tax morale, norms, perceptions of fairness, and trust in authorities [16]–[18]. Frameworks like the slippery slope model and theories such as the Theory of Planned Behavior show that internal motivations and financial awareness also significantly shape taxpayer behavior, particularly among those without professional tax support [19]. Thus, improving compliance requires integrating both economic and behavioral approaches.

2.2 Behavioral Bias

Behavioral biases significantly impact tax compliance by shaping how taxpayers perceive and respond to their tax obligations, often causing systematic deviations from rational decision-making and leading to non-compliance. Biases such as overconfidence, mental accounting, loss aversion, and anchoring influence financial behavior in ways that undermine voluntary compliance. Overconfidence bias causes taxpayers—especially among small and medium enterprises—to overestimate their ability to evade taxes undetected, often due to a misjudgment of their understanding of tax regulations [20]. Mental accounting leads individuals to separate tax obligations from other financial responsibilities, resulting in inconsistent compliance as they prioritize other financial goals [21]. Loss aversion, wherein taxes are perceived as personal losses, motivates efforts to reduce or avoid payments, particularly on income sources perceived as deserved or earned [21]. Anchoring bias further distorts decision-making, as taxpayers rely on arbitrary reference points or past experiences when reporting income, leading to systematic errors [18]. Recognizing and addressing these behavioral patterns is essential for developing more effective and targeted tax compliance strategies.

2.3 Financial Literacy

Financial literacy is crucial for enabling individuals to make informed financial decisions, including those related to tax compliance, yet in Indonesia, low financial literacy levels have been consistently linked to poor financial behavior and widespread tax non-compliance. Financial literacy encompasses a combination of knowledge, skills, attitudes, and behaviors that support financial well-being and economic resilience—competencies essential for understanding tax responsibilities and navigating complex tax systems [22], [23]. It empowers individuals to make sound decisions on saving, investing, and managing debt, which are foundational for responsible tax behavior [22], while also helping them grasp the consequences of evasion and the societal benefits of paying taxes [24]. To address these gaps, financial education campaigns have been launched to improve public understanding of financial and tax systems, with some evidence from India suggesting such initiatives can enhance economic protection and reduce poverty [23]. However, challenges persist, including disparities in literacy levels across demographics—shaped by gender,

age, and education—as well as the influence of cognitive biases and limited digital financial skills, all of which can obstruct effective financial decision-making [22]. Moreover, some studies indicate that current education efforts have had only a modest impact on actual financial behaviors, pointing to the need for more targeted and adaptive strategies [24].

2.4 Theoretical Framework

This research is guided by Behavioral Economics Theory, which integrates psychological and economic perspectives to explain why individuals often engage in irrational financial behaviors, highlighting how cognitive limitations and emotional influences can lead to suboptimal decisions, including in tax compliance. Complementing this, Human Capital Theory emphasizes the role of education and knowledge as investments that enhance individuals' decision-making abilities, suggesting that higher financial literacy can lead to better economic outcomes, such as improved tax compliance. Drawing from these theoretical foundations and supporting literature, the following hypotheses are proposed.

H1: Behavioral bias significantly influences the tax compliance decisions of individual taxpayers.

H2: Financial literacy significantly influences the tax compliance decisions of individual taxpayers.

3. RESEARCH METHODS

This study adopts a quantitative research approach with an explanatory design to examine the causal relationship between behavioral bias and financial literacy (independent variables) and tax compliance decisions (dependent variable). The quantitative method is suitable for identifying patterns, assessing statistical relationships, and determining the significance of variables through numerical data and structured analysis. The target population includes individual taxpayers in Indonesia from both formal and informal economic sectors. A purposive sampling technique was used to select 250 respondents based on the following criteria: Indonesian citizens aged 21 years and above, registered as individual taxpayers (NPWP holders), actively filing income tax returns in the last two years, and willing to complete a survey. The sample size was chosen to ensure statistical power for regression analysis and to accommodate potential non-responses.

Data were collected using a structured questionnaire distributed both online and offline, divided into four sections: demographic information, behavioral bias indicators, financial literacy indicators, and tax compliance decision indicators. Responses were measured using a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). A pilot test involving 30 respondents was conducted to validate the questionnaire's clarity and reliability, followed by necessary revisions. The variables measured include Behavioral Bias (X_1) with indicators such as overconfidence, loss aversion, mental accounting, and anchoring; Financial Literacy (X_2), encompassing knowledge of tax obligations, understanding financial terms, and personal finance management; and Tax Compliance Decision (Y), reflecting willingness and behavior in fulfilling tax obligations. Each construct was assessed for internal consistency using Cronbach's Alpha.

SPSS version 25 was used to analyze the gathered data. Descriptive analysis to profile respondent characteristics, validity and reliability testing with Pearson correlation and Cronbach's Alpha, and traditional assumption tests like heteroscedasticity (scatterplot), multicollinearity (VIF), and normality (Kolmogorov-Smirnov) were all part of the analysis process. Using the model $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$, where Y is the tax compliance decision, X_1 is behavioral bias, X_2 is financial literacy, α is the constant, β_1 and β_2 are regression coefficients, and ε is the error term, multiple linear regression was used to test the simultaneous and partial effects of behavioral bias and financial literacy on tax compliance.

R2 was used to assess the model's explanatory power, t-tests for individual predictors, and F-tests for the entire model.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Descriptive statistics provide an overview of the respondents' demographic characteristics and the distribution of responses for each research variable. This section helps establish a general profile of the participants and offers initial insights into their behavioral tendencies related to tax compliance. A total of 250 individual taxpayers in Indonesia took part in the study. Based on the demographic data, 54% of respondents were male and 46% female. The largest age group was 26–35 years (41.2%), followed by 36–45 years (23.2%). In terms of education, most respondents held a diploma or bachelor's degree (69.2%), while 16.8% had a postgraduate degree. Regarding occupation, 43.2% were private sector employees, 28.0% were entrepreneurs, and 20.8% were civil servants. The most common income range was IDR 5–10 million per month (44.8%), indicating a relatively stable financial base among participants. These demographics suggest that the sample primarily consists of educated and economically active individuals.

Descriptive statistics for each research variable—behavioral bias, financial literacy, and tax compliance decision—were analyzed using SPSS version 25. Measures such as mean, standard deviation, minimum, and maximum scores were calculated to understand the central tendency and dispersion of each variable. This statistical summary provides a foundational understanding of respondents' behavioral patterns, levels of financial literacy, and their tendencies regarding tax compliance. These initial descriptive results are crucial before conducting further inferential analysis to test the research hypotheses.

Table 1. Descriptive Statistic

Variable	Number of Items	Mean	Standard Deviation	Minimum	Maximum
Behavioral Bias (X_1)	5	3.28	0.56	2.00	4.80
Financial Literacy (X_2)	5	3.85	0.62	2.20	5.00
Tax Compliance Decision (Y)	5	4.01	0.49	2.60	5.00

The descriptive statistics reveal that behavioral bias among respondents has a moderate presence, with a mean score of 3.28 and a standard deviation of 0.56, indicating moderate variability in cognitive tendencies such as overconfidence or loss aversion. In contrast, financial literacy scores are relatively high, with a mean of 3.85 and a standard deviation of 0.62, suggesting that most taxpayers possess a good understanding of financial principles and tax-related knowledge. Tax compliance decision scores are even higher, with a mean of 4.01 and a relatively low standard deviation of 0.49, indicating consistent and generally compliant behavior among respondents. Overall, these findings suggest that while financial awareness and tax compliance are strong among individual taxpayers in Indonesia, the moderate presence of behavioral biases may still influence their decision-making processes—setting the foundation for further inferential analysis in the subsequent sections.

4.2 Validity and Reliability Testing

To ensure the accuracy and consistency of the measurement instruments used in this study, both validity and reliability tests were conducted using SPSS version 25. Validity testing was carried out to determine whether each questionnaire item

accurately measured the intended construct. The Pearson product-moment correlation was employed to assess construct validity for each indicator within the variables. According to the criteria, an item is considered valid if its correlation coefficient (r) with the total construct score exceeds 0.30 and is significant at $p < 0.05$. The results of the validity test confirmed that all items met these thresholds, indicating that the questionnaire items were valid and suitable for further analysis.

Table 2. Validity Testing

Variable	Indicator	Pearson Correlation (r)	Sig. (2-tailed)	Validity
Behavioral Bias (X_1)	BB1	0.627	0.000	Valid
	BB2	0.591	0.000	Valid
	BB3	0.684	0.000	Valid
	BB4	0.652	0.000	Valid
	BB5	0.604	0.000	Valid
Financial Literacy (X_2)	FL1	0.713	0.000	Valid
	FL2	0.744	0.000	Valid
	FL3	0.687	0.000	Valid
	FL4	0.702	0.000	Valid
	FL5	0.671	0.000	Valid
Tax Compliance Decision (Y)	TC1	0.736	0.000	Valid
	TC2	0.709	0.000	Valid
	TC3	0.753	0.000	Valid
	TC4	0.732	0.000	Valid
	TC5	0.781	0.000	Valid

All indicator items in this study have correlation coefficients above 0.30 and are significant at the 0.01 level, indicating strong construct validity and confirming that the questionnaire items are valid for further analysis. In addition to validity, reliability testing was conducted to assess the internal consistency of items within each variable using Cronbach's Alpha. A construct is considered reliable if its Cronbach's Alpha value is equal to or greater than 0.70. The results show that Behavioral Bias (X_1) has an alpha of 0.771, Financial Literacy (X_2) 0.811, and Tax Compliance Decision (Y) 0.798, all exceeding the reliability threshold. These results confirm that the measurement instruments used in this study are both valid and reliable, making them suitable for subsequent statistical analyses.

4.3 Classical Assumption Testing

Before conducting multiple linear regression analysis, it is essential to ensure that the classical assumptions of linear regression are met. These assumptions include normality, multicollinearity, and homoscedasticity. The analysis was conducted using SPSS version 25.

a. Normality Test

Using the Kolmogorov-Smirnov (K-S) test as the evaluation tool, the normality test was carried out to determine whether the regression model's residuals are normally distributed. H_0 (null hypothesis), which asserts that the data is normally distributed, and H_1 (alternative hypothesis), which asserts that the data is not, are the test's hypotheses. The decision rule states that the data can be regarded as regularly distributed if the significance value (p-value) is higher than 0.05. The test findings indicate a Sig. (2-tailed) value of 0.200 and a Kolmogorov-Smirnov Z value of 0.067. The normality assumption for the regression analysis is satisfied since the significance value is greater

than 0.05, indicating that the residuals are regularly distributed.

b. Multicollinearity Test

A situation known as multicollinearity occurs when independent variables have a high degree of correlation, which may skew the estimation of regression coefficients and lower the model's dependability. This study employed the Variance Inflation Factor (VIF) and Tolerance values to identify multicollinearity, with the requirements that VIF be less than 10 and Tolerance be larger than 0.10. According to the test findings, the VIF values for Financial Literacy (X_2) and Behavioral Bias (X_1) are 1.143 and 0.875, respectively. It is possible to conclude that there is no multicollinearity between the independent variables and that the regression model is free from multicollinearity problems because all VIF values are significantly below 10 and all tolerance values are more than 0.10.

c. Heteroscedasticity Test

Heteroscedasticity refers to a condition in which the variance of residuals varies across levels of the independent variables, potentially violating one of the key assumptions of regression analysis. To detect heteroscedasticity in this study, a scatterplot of standardized residuals versus predicted values was analyzed. The scatterplot revealed that the residuals are randomly and evenly scattered around the horizontal axis, with no visible patterns or funnel-shaped distributions. This observation suggests that the variance of the residuals is constant across all levels of the predictors, indicating that the regression model does not suffer from heteroscedasticity and thus meets this assumption.

4.4 Multiple Linear Regression Analysis

The results of a multiple linear regression analysis that looked at how financial literacy (X_2) and behavioral bias (X_1) affected individual taxpayers' decisions about tax compliance (Y) in Indonesia are shown in this section. SPSS version 25 was used for the analysis. The formula for the regression model is $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \varepsilon$, where $\hat{w}$ is the error term, α is the constant, β_1 and β_2 are the regression coefficients, X_1 is behavioral bias, and X_2 is financial literacy. The purpose of this model is to assess how the independent variables affect the dependent variable separately and in combination.

According to the model summary, there is a moderate to strong positive link between financial literacy, tax compliance decisions, and behavioral bias, with the multiple correlation coefficient (R) standing at 0.657. With a coefficient of determination (R2) of 0.432, the two independent variables in the model account for 43.2% of the variance in tax compliance decisions. The model's explanatory power is further supported by the modified R2 value of 0.427, which takes into consideration the number of predictors utilized. Other factors not included in this study account for the remaining 56.8% of the variation in tax compliance behavior.

Table 3. F-Test

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	26.098	2	13.049	94.080	0.000
Residual	34.255	247	0.139		
Total	60.353	249			

The F-value of 94.080 with a significance level of 0.000, which is less than 0.05, indicates that the regression model is statistically significant. This

result confirms that the independent variables—Behavioral Bias and Financial Literacy—simultaneously have a significant influence on Tax Compliance Decisions among individual taxpayers.

Table 4. t-Test

Variable	Unstandardized B	Std. Error	Standardized Beta	T	Sig.
(Constant)	1.512	0.217	—	6.970	0.000
Behavioral Bias (X_1)	-0.263	0.078	-0.241	-3.372	0.001
Financial Literacy (X_2)	0.451	0.070	0.534	6.443	0.000

The interpretation of the regression coefficients reveals that the constant value (α = 1.512) indicates the baseline score for tax compliance decisions when both behavioral bias and financial literacy are zero. The coefficient for Behavioral Bias (β_1 = -0.263) shows a negative and significant effect on tax compliance decisions ($p = 0.001 < 0.05$), suggesting that higher levels of behavioral bias decrease the likelihood of tax compliance. Conversely, the coefficient for Financial Literacy (β_2 = 0.451) demonstrates a positive and significant effect ($p = 0.000 < 0.05$), indicating that individuals with greater financial literacy are more inclined to fulfill their tax obligations.

4.5 Discussion

a. Behavioral Bias and Tax Compliance

The analysis demonstrates that behavioral bias has a negative and significant effect on tax compliance decisions, thereby confirming Hypothesis 1 (H_1). This aligns with behavioral economics theory, which posits that individuals often deviate from rational decision-making due to cognitive distortions. In this study, behavioral bias encompassed indicators such as overconfidence, loss aversion, mental accounting, and anchoring—each of which can impair objective judgment in fulfilling tax obligations. Overconfident taxpayers may underestimate the risk of penalties or overrate their understanding of tax laws, leading to non-compliance. Similarly, loss-averse individuals may view taxes as a personal loss and try to avoid payment, even unethically. Mental accounting can cause taxpayers to isolate tax funds from other financial priorities, while anchoring leads them to rely on irrelevant benchmarks in estimating tax dues. These findings are consistent with prior studies by Torgler (2007) and Kirchler et al. (2008), which highlight how behavioral distortions shape perceptions and decisions around taxation. To mitigate these effects, targeted interventions such as simplified messaging, framing strategies, and behavioral nudges are recommended to reduce non-compliance arising from psychological factors.

Further supporting evidence highlights specific dimensions of these biases. Mental accounting often leads individuals to separate tax money from other financial responsibilities, causing inconsistent compliance, especially with earned income, which is more likely to be evaded when tax rates are high [21], [25]Loss aversion contributes to evasion behaviors by framing tax as a loss, although awareness of this bias can sometimes reduce such tendencies [21]. The interaction between loss aversion and risk aversion also influences decisions, where higher tax rates increase evasion, but stronger audit penalties can counteract it. Anchoring bias affects filing behavior, especially

when taxpayers expect refunds or fear owing additional taxes, leading to aggressive declarations based on arbitrary reference points [26]. Behavioral interventions—such as installment framing, reminder messages, and default payment options—have proven effective in reshaping taxpayer perceptions and encouraging compliance [27]. These insights emphasize the need for policy approaches that go beyond legal enforcement and address the underlying behavioral tendencies affecting tax behavior.

b. Financial Literacy and Tax Compliance

In contrast to behavioral bias, financial literacy demonstrates a strong, positive, and significant effect on tax compliance, thereby confirming Hypothesis 2 (H_2). This finding supports the notion that financial literacy equips individuals with the ability to understand tax responsibilities, calculate obligations accurately, and recognize the societal benefits of contributing through taxes. Respondents with higher levels of financial literacy were more likely to comply with tax regulations, indicating that beyond technical knowledge—such as understanding tax rates, deductions, and filing deadlines—financial literacy also cultivates a stronger sense of personal accountability and awareness of financial risks. These findings are consistent with the works of Lusardi & Mitchell (2011) and the OECD (2013), which emphasized the critical role of financial knowledge in fostering responsible financial behavior, including adherence to tax laws. In the Indonesian context, where tax regulations are often perceived as complex and public trust in the tax system is still evolving, financial literacy emerges as a vital tool for reducing misunderstanding, misinformation, and unintentional non-compliance. Therefore, embedding personal tax education into school curricula, community programs, and national awareness campaigns is a highly strategic move.

Empirical studies further reinforce the influence of financial awareness and understanding on tax compliance. For example, research on employees of PT Surveyor Indonesia revealed that both tax awareness and tax knowledge significantly and positively affect taxpayer compliance, both individually and collectively [28]. Similarly, Fitri & Annisa (2023) found that taxpayer awareness, comprehension of tax regulations, and the existence of tax sanctions contribute to higher levels of compliance, suggesting that informed taxpayers are more likely to act in accordance with their obligations. Additional research highlights the role of education as a foundational driver of tax compliance, where higher educational attainment and deeper understanding of taxation correlate with improved compliance behavior [29]. A study at the Jakarta Penjaringan tax office supports this view, demonstrating that knowledge, service quality, and awareness all positively influence compliance behavior [30]. These findings emphasize that strengthening financial and tax literacy through structured education and accessible information channels can significantly improve tax compliance outcomes in Indonesia.

c. Theoretical Contribution

This study contributes to the growing body of research in behavioral public finance by providing empirical evidence from Indonesia—a developing country context—where such studies are still relatively limited. By combining behavioral and financial literacy perspectives, it reinforces the importance of a multidisciplinary

approach to understanding and improving tax compliance behavior.

5. CONCLUSION

This study provides empirical evidence that both behavioral bias and financial literacy significantly influence tax compliance decisions among individual taxpayers in Indonesia. Behavioral bias negatively affects compliance, as cognitive distortions—such as overconfidence, mental accounting, and loss aversion—can lead individuals to misjudge risks or rationalize non-compliance. In contrast, financial literacy has a positive impact by equipping individuals with the knowledge and skills to understand tax procedures and the importance of fulfilling obligations accurately and on time. The regression analysis confirms that these two variables together explain 43.2% of the variation in tax compliance behavior. These findings underscore the importance of a dual approach in improving tax compliance: implementing behavioral interventions to mitigate cognitive biases and expanding financial literacy programs with a focus on taxation. For policymakers and tax authorities, the results suggest that efforts to enhance compliance should not rely solely on enforcement or system modernization, but also incorporate psychological and educational strategies. Future research is encouraged to explore other influencing factors such as digital literacy, perceived fairness, and trust in government to gain a more comprehensive understanding of taxpayer behavior in the Indonesian context.

REFERENCES

[1] F. Romadhon and E. Diamastuti, "Kepatuhan pajak: Sebuah analisis teoritis berdasarkan perspektif teori atribusi," *J. Ilm. ESAI*, vol. 14, no. 1, pp. 17–35, 2020.

[2] S. Dewi Anggadini, S. Lnu, A. Bramasto, and E. Fahrana, "Determination of individual taxpayer compliance in Indonesia: A case study," *J. East. Eur. Cent. Asian Res.*, vol. 9, no. 1, 2022.

[3] A. Kurniawan, R. N. B. Meliala, and F. R. Febrianto, "Factors influencing tax compliance in Indonesia," *Ris. J. Apl. Ekon. Akunt. dan Bisnis*, vol. 5, no. 1, pp. 1–13, 2023.

[4] N. F. Liyana, "Menakar masalah dan tantangan administrasi pajak: Kepatuhan pajak di era self-assessment system," *J. Pajak Dan Keuang. Negara*, vol. 1, no. 1, p. 6, 2019.

[5] S. A. Lim and L. Indrawati, "Upaya Meningkatkan Kepatuhan Wajib Pajak di Indonesia," *BIP's J. BISNIS Perspekt.*, vol. 9, no. 1, pp. 28–47, 2017.

[6] M. Marchand, "Behavioral biases in financial decision making," *Bachelor Theses Financ.*, vol. 8200, no. 21, pp. 1–28, 2012.

[7] N. Miglietta and M. Remondino, "Modeling cognitive distortions of behavioural finance," in *2009 International Conference on Computational Intelligence, Modelling and Simulation*, 2009, pp. 204–209.

[8] C. R. Sunstein, *Behavioral law and economics*. Cambridge University Press, 2000.

[9] G. Shi, "The Introduction to Behavioral Economics and Its Widespread Use across Different Areas of Economics and Policymaking," *Adv. Econ. Manag. Polit. Sci.*, vol. 54, pp. 69–76, 2023.

[10] T. Umapathy, "Behavioral Economics: Understanding Irrationality In Economic Decision-Making," *Migr. Lett.*, vol. 21, no. S2, pp. 923–932, 2024.

[11] A. Mahajan, "A Study of Tax Literacy among the People of Punjab," *Abhigyan*, vol. 40, no. 2, pp. 1–8, 2022.

[12] M. R. Intansari, "The Effect of Tax Literacy on Tax Compliance: The Moderating Role of Patriotism," *Tech. Soc. Sci. J.*, vol. 34, p. 455, 2022.

[13] A. Zaimovic, A. Torlakovic, A. Arnaut-Berilo, T. Zaimovic, L. Dedovic, and M. Nuhic Meskovic, "Mapping financial literacy: A systematic literature review of determinants and recent trends," *Sustainability*, vol. 15, no. 12, p. 9358, 2023.

[14] M. R. Wiquar, M. S. Wiquar, and T. Burney, "Tax literacy and the role of financial knowledge: A study of government initiatives and individual investors from Delhi NCR," *EPRA Int. J. Econ. Bus. Rev.*, vol. 10, no. 5, pp. 6–11, 2022.

[15] S. Vitaliia, "European Experience In Improving The Financial Literacy Of The Population As A Strategy For Effective Personal Finance Management," *Ecol. Econ. Financ. Transform. Ukr. Coop. With Eu Challenges Prospect.*, p. 45, 2023.

[16] L. M. BĂTRÂNCEA, R. A. Nichita, I. Bătrâncea, and B. A. Moldovan, "Tax compliance models: From economic to behavioral approaches," *Transylvanian Rev. Adm. Sci.*, vol. 8, no. 36, pp. 13–26, 2012.

[17] A. V Demin, "Psychological factors of tax compliance. Psychology and Law, 13 (1)," *DOI*, vol. 10, pp. 170–178, 2023.

[18] A. J. Hartmann, M. Mueller, and E. Kirchler, *Tax Compliance: Research Methods and Decision Processes*. Springer, 2020.

[19] M. N. Adhillah, P. Meilanda, L. L. Fuadah, and M. Mukhtaruddin, "Exploring Factors Influencing Individual Taxpayer Compliance: A Systematic Literature Review".

[20] L. Arcos Holzinger and N. Biddle, "Behavioural insights of tax compliance: An overview of recent conceptual and

empirical approaches," *Tax Transf. Policy Institute-Working Pap.*, vol. 8, 2016.
[21] S. Dhami and N. Hajimoladarvish, "Mental accounting, loss aversion, and tax evasion: Theory and evidence," 2020.
[22] A. F. M. Ahamed, "Chapter-1 FINANCIAL LITERACY," *Chapter-1 Financ. Lit. (January 06, 2025)*, 2025.
[23] G. Manoharan, G. Nithya, A. Razak, S. Durai, S. Sharma, and S. P. Ashtikar, "Enhancing Financial Literacy: Strategies, Challenges, and Global Initiatives," in *Emerging Perspectives on Financial Well-Being*, IGI Global, 2024, pp. 111–128.
[24] J. A. Haslem, "Selected topics in financial literacy," *Available SSRN 2352918*, 2014.
[25] M. B. Javareshk, B. D. Pulford, and E. M. Krockow, "Mental accounting in tax liabilities," *Decision*, vol. 51, no. 2, pp. 153–164, 2024.
[26] I. Burt, L. Thorne, and J. Walker, "Reference points, mental accounting, and taxpayer compliance: insights from a field study," in *Advances in Accounting Behavioral Research*, Emerald Publishing Limited, 2023, pp. 139–167.
[27] T. O. Weber, J. Fooken, and B. Herrmann, "Behavioural economics and taxation," *Eur. Comm. Tax. Pap.*, 2014.
[28] C. H. Arrosyid and B. Soedaryono, "Pengaruh Kesadaran Pajak dan Pengetahuan Pajak Terhadap Kepatuhan Wajib Pajak pada Karyawan PT Surveyor Indonesia," *Digit. Bisnis J. Publ. Ilmu Manaj. dan E-Commerce*, vol. 3, no. 3, pp. 38–48, 2024.
[29] P. Karlina and A. Anggraini, "The influence of educational level, tax understanding and tax awareness on individual taxoayer compliance," *Int. J. Soc. Sci. Humanit. Manag. Res.*, vol. 3, no. 6, pp. 622–631, 2024.
[30] A. A. Oktaviani, F. T. Juang, and D. A. Kusumaningtyas, "The effect of knowledge and understanding taxation, quality of tax services, and tax awareness on personal tax compliance," *Indones. Manag. Account. Res.*, vol. 16, no. 2, pp. 33–45, 2019.