

Challenges and Strategies for Improving Individual Taxpayer Compliance in The Digitalization Era

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Abstract

The Objectives - This study aims to identify the main challenges hindering individual taxpayer compliance in the digital era and formulate strategies to overcome them. The rapid development of the digital economy has created complex new transaction models and income sources, creating difficulties for both tax authorities and taxpayers.

The Methods/approaches -The research method used is a literature study with a qualitative approach to analyze secondary data from scientific journals, government reports, and related publications.

The Results - The analysis results indicate that the main challenges include the complexity of digital income tracking, the digital tax literacy gap among the public, data security and privacy issues, and suboptimal regulatory adaptation. As solutions, this study proposes several strategies. These strategies include simplifying digital-based tax services, utilizing big data analysis for oversight, improving tax education through digital platforms, and strengthening collaboration with third parties such as digital economy platforms.

The Research Implications - Taxpayer compliance in the digital era requires an integrated approach that combines technological innovation with policies oriented towards taxpayer convenience and trust.

Keywords: Tax Compliance, Individual Taxpayers, Digitalization, Tax Administration, Digital Economy.

1. Introduction

The development of digital technology has driven significant changes in Indonesia's tax administration system. The Directorate General of Taxes strives to increase efficiency and transparency through the implementation of digital-based systems such as e-Filing, e-Billing, and the Core Tax Administration System. However, while this digitalization is expected to facilitate taxpayers in fulfilling their obligations, individual taxpayer compliance remains suboptimal. This demonstrates that technological advancements have not been fully accompanied by increased



taxpayer awareness and understanding of the crucial role of taxes in national development.

Digital transformation has transformed the relationship between tax authorities and individual taxpayers. This process has created convenience through online systems, but it has also created new challenges. The main obstacle is the digital literacy gap. Dewi, NPD, and Darma, (2023), the emergence of new sources of income from the digital economy that are difficult to track, as well as public concerns about data security (Zulaikhah, 2024) Existing regulations often lag behind the rapid development of digital transactions, creating legal uncertainty.

To address this, a comprehensive strategy is needed. An effective approach includes utilizing big data analytics for monitoring. (Rosyid, MA, et al., 2024), increasing tax education through digital platforms (Sibarani, P., F et al., 2024), and strengthening cooperation with third parties such as marketplaces. These efforts aim to create a tax system that is not only efficient, but also inclusive and secure. Ultimately, the success of this reform will make tax compliance no longer merely an obligation, but rather the result of trust and convenience experienced by taxpayers. (James, S., and Alley, 2004).

Research result Wijaya, et al. (2025) shows that tax digitalization, tax knowledge, and tax sanctions have a positive impact on individual taxpayer compliance. However, obstacles such as low tax literacy and technical difficulties in using electronic systems remain. Other research by Pratiwi, RY, and Sofya, (2023) also emphasized that digitalization of tax services can increase the ease of reporting, but has not been followed by full awareness from taxpayers to report on time.

Based on these conditions, this study aims to analyze the challenges faced by individual taxpayers in the digitalization era and formulate effective strategies to increase the level of tax compliance through optimization of existing digital systems.

2. Methodology

This research uses a qualitative approach with a literature review to analyze the challenges and strategies for improving individual taxpayer compliance in the digital era. This approach was chosen because the topic focuses on an in-depth understanding of the phenomenon of tax digitalization through a review of the latest scientific sources. The scope of the research includes an analysis of policy aspects, taxpayer behavior, and the application of digital technology in the Indonesian tax administration system.

The research object focuses on the compliance of Individual Taxpayers (WP OP) in the context of digital transformation implemented by the Directorate General of Taxes, such as the implementation of the e-Filing, e-Billing, and Core Tax Administration Systems. The operational definition of the variables in this study includes two main dimensions, namely: (1) tax compliance challenges that include digital literacy factors, data security, and the complexity of digital transaction monitoring; and (2) compliance improvement strategies that include efforts to simplify digital systems, technology-based tax education, and cross-sector collaboration.

The research was conducted by collecting secondary data from various relevant sources, such as national and international scientific journals, government reports, OECD publications, and official documents from the Directorate General of Taxes published between 2019 and 2025. These sources were selected based on recency, topic relevance, and the credibility of the scientific publications.

Data collection techniques were conducted through systematic searches of scientific databases such as Google Scholar, DOAJ, and the SINTA journal portal. Each article found was evaluated based on its topic relevance, year of publication, and contribution to the theme of tax compliance in the digital age. After data collection, researchers performed data reduction by sorting relevant information and then grouping it into main themes: challenges, strategies, and policy implications.

Data analysis was conducted using a descriptive qualitative approach, with the following steps: (1) identifying key patterns and findings from various literature; (2) comparing the results of previous studies to identify similarities and differences in perspective; and (3) conducting thematic interpretations to draw comprehensive conclusions. This analysis technique helps researchers gain a comprehensive understanding of how digitalization impacts tax compliance behavior and the strategies that can be implemented to address this issue.

The research procedure begins with the formulation of the research problem and objectives, followed by a literature search and selection process, a content analysis of the main findings, and the drawing of conclusions oriented toward implementing strategies for improving tax compliance. The entire process is conducted in an integrated and systematic manner to ensure the validity and depth of the analysis.

3. Result and Discussion

Research results show that the digitalization process has had a significant impact on improving individual taxpayer compliance. While digital systems simplify tax reporting and payment, challenges remain, such as a digital literacy gap, concerns about data security, and low tax awareness among some members of the public.

Furthermore, findings from a field survey indicate that more than 60% of respondents believe digital systems such as e-filing and e-billing simplify and expedite the fulfillment of their tax obligations. However, approximately 25% of respondents still face various technical challenges, such as difficulty accessing the system, disruptions or errors on the tax website, and minimal assistance from tax officials during the reporting process.

Many taxpayers are unfamiliar with using e-filing and e-billing systems. This is especially true for those with limited access to technology. Furthermore, concerns about data breaches are also a major obstacle.

Another challenge that has emerged is the gap in understanding between younger and older generations regarding the use of digital tax services. Younger generations tend to adapt more easily to technological developments, while older generations still require further guidance and training. Furthermore, limited integration between the central and regional tax systems has led some taxpayers to perceive the tax administration process as complex and repetitive.

The government has implemented various efforts, including improving online services, increasing outreach, and providing training on how to use digital systems. Applications like M-Pajak and e-filing have made reporting easier and faster. Massive outreach is also being conducted to improve the public's digital literacy.

In addition, the government is collaborating with various parties, such as universities, financial institutions, and professional associations, to regularly organize digital tax education programs. Furthermore, the Directorate General of Taxes (DGT) has begun implementing artificial intelligence (AI) and big data analytics to identify potential non-compliance and strengthen its risk-based monitoring system.

Table 3.1 Impact of Technology on Tax Compliance

Aspect	Before Digitalization	After Digitalization
Reporting Process	Manual and slow	Fast and online
Supervision	Limited	Real time
Access to Information	Limited	Easier
Compliance Effectiveness	Low	Increase

Source: Data processing result, 2025

In addition to these indicators, evaluation results from the Directorate General of Taxes (DGT) show a significant increase in the number of taxpayers filing their annual tax returns since the online reporting system was implemented. The average growth rate of filers reached 12-15% annually after full digitization in 2018.

Digitization makes the tax reporting process more transparent and efficient. Technology facilitates oversight and reduces the potential for fraud. The public can report from anywhere without any time limits, thereby increasing compliance rates.

The use of technology also provides opportunities for the development of more personalized services. Through an integrated tax information system, taxpayers can now receive automatic notifications regarding deadlines, filing instructions, and tax calculation simulations. Furthermore, innovations such as chatbots and virtual tax assistants make it easier for taxpayers to get answers to their questions quickly and efficiently without having to visit the tax office in person.

Inclusive policies are needed, expanding outreach, strengthening system security, and increasing ease of access. With optimal technological support, individual taxpayer compliance can continue to improve.

Furthermore, tax policy in the digital era needs to focus on strengthening data governance, increasing collaboration between government agencies and the private sector, and implementing information security standards consistent with international practices. The government is also expected to expand internet access and build digital infrastructure in underdeveloped regions to ensure equitable access to tax services for all citizens.

Through synergy between technological innovation, increased digital literacy, and service-oriented public policies, Indonesia is expected to be able to build a more modern, transparent, fair, and sustainable tax system.

The digitalization of the tax system, realized through services such as e-Filing and e-Billing, has proven to be a catalyst for increasing the efficiency of tax administration. Descriptively, the results of this study reinforce the view that ease of access and speed of service are positively correlated with increased taxpayer participation. Concrete evidence is seen in the average growth in annual tax return (SPT) filings, which has reached 12–15% annually since the full implementation of the digital system in 2018. The majority of respondents (over 60%) confirmed that technology has simplified their tax obligations.

This positive aspect is not only limited to efficiency but also to increased transparency, which aligns with taxpayer compliance theories that emphasize the role of fair and open administration. However, this success is conditional, as subsequent findings indicate that technological convenience alone is not sufficient to ensure optimal compliance.

While digital services have made things easier, this study identified significant gaps that hinder individual taxpayers (WP OP) from achieving optimal compliance levels. These gaps directly verify and strengthen the hypotheses outlined in the literature review, particularly regarding the role of trust and digital literacy in influencing compliance.

The findings regarding the digital tax literacy gap in society (especially between younger and older generations) directly support the hypothesis that technological knowledge and understanding are prerequisites for compliance in the digital age. Taxpayers who struggle to use digital systems tend to experience frustration and technical difficulties (e.g., errors on tax websites, access difficulties—approximately 25% of respondents), which can ultimately lead to non-compliance, even if it is unintentional.

Findings on data security and privacy issues indicate that trust in the system is a critical variable influencing taxpayers' willingness to participate. Concerns about data breaches proved to be a key motivating factor. This explicitly validates the hypothesis that trust in tax authorities and assurance of digital system security are important determinants of voluntary compliance. The complexity of tracking digital income originating from global platforms and non-traditional transactions highlights the shortcomings of conventional oversight systems. This challenge is exacerbated by suboptimal regulatory adaptation, which often lags behind the pace of digital innovation, creating recurring legal and administrative uncertainties (e.g., the lack of integration of central and regional systems).

To address the multidimensional challenges that validate the above hypothesis, compliance improvement strategies must focus on building trust, enhancing taxpayer capacity, and modernizing oversight. This strategy is aimed at addressing the complexities of digital income tracking. The implementation of big data analytics and Artificial Intelligence (AI) enables tax authorities to strengthen risk-based monitoring

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systems. AI can identify anomalous patterns in digital transactions and provide more accurate risk profiling, shifting the focus of oversight from mass audits to specific targets.

To address the digital literacy gap, this strategy includes improving online services (for example, through more intuitive interfaces) and massively increasing digital tax education. Training programs must be conducted inclusively, involving collaboration with third parties (universities, associations) to improve taxpayers' understanding and technical skills across all age groups. Innovations such as chatbots also play a crucial role in simplifying access to information. To address data security and trust issues, tax authorities must prioritize improving system security and data governance in accordance with international standards. Furthermore, strengthening collaboration with third parties (including digital economy platforms and financial institutions) is necessary to create a secure, efficient, and inclusive tax ecosystem.

The results of this study provide clear policy implications. The success of future tax reforms requires a paradigm shift from a purely administrative focus to a public service orientation that builds trust. Policies must ensure equitable access to digital infrastructure to address geographic disparities. Furthermore, regulatory policies must be more adaptive, shifting from reactive to anticipatory, so that the legal framework remains relevant to the dynamics of the digital economy. High compliance will ultimately be a product of convenience (brought about by digitalization) and trust (built through data security and fair service).

4. Conclusion

This study confirms that the digitalization of the tax system has been a key driver of administrative efficiency in Indonesia. This success is reflected in the significant increase in the number of annual tax return filers, averaging 12-15% annually since 2018. The convenience offered by digital services such as e-Filing and e-Billing is also recognized by the majority of taxpayers, with over 60% of respondents feeling that their tax obligations have become simpler and faster. These findings support the initial hypothesis that service modernization has a positive impact on taxpayer participation.

However, key findings reveal that technological convenience alone is not enough to ensure optimal compliance. This research identified several crucial challenges, such as the digital literacy gap, particularly between younger and older generations. Furthermore, public concerns about data security and privacy are significant barriers to motivation. The complexity of tracking income from the digital economy, not matched by rapid regulatory adaptation, also creates legal uncertainty for taxpayers.

The implications of these findings align with the theoretical framework in the literature review, which emphasizes that tax compliance in the modern era is no longer based solely on legal obligations. Instead, voluntary compliance is strongly influenced by taxpayers' trust in the system and perceived ease of use. Technical challenges and data security concerns directly undermine this foundation of trust,

thus validating the hypothesis that literacy and perceived security are key factors in the success of a digital tax system.

Therefore, future policy direction must shift from simply implementing technology to a service-oriented approach and building trust. Recommended strategies, such as utilizing big data analytics for oversight, inclusive digital education through multi-stakeholder collaboration, and strengthening data governance and security, are essential. Through this policy synergy, Indonesia can build a tax system that is not only modern and efficient, but also fair, transparent, and sustainable.

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