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The Role of Financial Literacy in Reducing Tax Anxiety and Improving the Effectiveness of Tax Planning

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ABSTRACT

This study investigates the role of financial literacy in reducing tax anxiety and improving the effectiveness of tax planning in Indonesia. Using a quantitative approach, data were collected from 78 individual taxpayers through a structured questionnaire. The analysis, conducted using SPSS version 26, revealed significant relationships among financial literacy, tax anxiety, and tax planning effectiveness. Financial literacy was found to positively influence tax planning effectiveness while reducing tax anxiety. Additionally, tax anxiety partially mediated the relationship between financial literacy and tax planning effectiveness. These findings emphasize the importance of financial education in fostering confident and effective tax planning behaviors among Indonesian taxpayers. The study provides actionable insights for policymakers to enhance tax compliance through targeted financial literacy initiatives and stress-reduction strategies.

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1. INTRODUCTION

Tax anxiety in Indonesia is a multifaceted issue that affects taxpayer compliance and efficient tax planning, arising from various factors such as the complexity of tax regulations, insufficient tax knowledge, and inadequate socialization of tax obligations. The intricate nature of tax laws significantly impacts compliance, as complex regulations can lead to inadvertent errors and increased anxiety, making it difficult for taxpayers to understand and fulfill their obligations; thus, simplifying these regulations could enhance compliance and reduce anxiety [1]. Additionally, a lack of understanding of tax responsibilities and insufficient socialization efforts contribute to non-compliance, highlighting the need for taxpayer education and expanded socialization programs to improve understanding and reduce anxiety [2]. Taxpayers' perceptions of the effectiveness of tax regulations also influence their willingness to comply, as positive perceptions, supported by a clear understanding of tax laws, can mitigate anxiety and encourage compliance [3]. Furthermore, while information technology alone does not directly influence compliance, high-quality tax services supported by digitalization can enhance taxpayer integrity and reduce anxiety, emphasizing the necessity of efficient and ethical tax services to foster voluntary compliance [4]. Addressing these underlying factors is crucial for improving tax compliance, reducing tax anxiety, and ultimately enhancing government revenue and economic stability.

Financial literacy is essential in addressing tax-related challenges by helping individuals and businesses navigate complex regulations and optimize tax planning, particularly in Indonesia, where it influences tax compliance and reduces anxiety. Studies show that financial literacy improves compliance, as budgeting, financial forecasting, and credit management enhance tax planning [5]. A I-driven solutions further support financial literacy by automating bookkeeping, tax filings, and predictive analytics for tax planning, reducing errors and compliance burdens [6]. Additionally, financial literacy fosters economic stability by improving decision-making in budgeting, saving, and investment [7], while digital financial literacy is crucial for navigating online financial platforms and mitigating cybersecurity risks in tax planning [8].

Indonesia faces challenges in enhancing tax compliance, particularly in fostering financial literacy. Despite digital tax systems and educational campaigns, taxpayers still experience stress and inefficiencies in tax planning. The digital divide and low financial literacy exacerbate access inequality, especially in rural areas, hindering the use of digital financial services [9]. Inclusive financial literacy programs and digital infrastructure investment can bridge this gap, improving compliance and reducing reliance on informal financing [9]. While e-filing and e-billing boost compliance, issues like low digital literacy and data security remain, necessitating stronger technological infrastructure [10]. Social engagement and education play a crucial role in compliance, with technology serving as a complementary tool [11]. Tax socialization and volunteer involvement also enhance MSME compliance, fostering a culture of adherence and improving revenue collection [9]. Additionally, digital literacy and tax digitalization increase awareness and compliance, making digital tools vital in tax education programs [12]. This underscores the importance of integrating financial literacy into tax education and compliance strategies. This study aims to investigate the relationship between financial literacy, tax anxiety, and the effectiveness of tax planning in Indonesia.

2. LITERATURE REVIEW

2.1 Financial Literacy

Financial literacy is essential for making informed financial decisions, including taxation, by enabling individuals to understand financial concepts, manage personal finances, and navigate tax regulations. It reduces confusion and stress related to tax obligations, fostering confidence in handling financial responsibilities. Financial literacy is crucial for saving, investing, and debt management, which support economic resilience and social equity [8]. It also influences investment decisions, where financial attitude and awareness play key roles [13], and leads to better financial management and reduced consumerism [12]. In taxation, financial literacy helps individuals calculate liabilities accurately and utilize tax-saving opportunities, minimizing stress [14]. Financial technology and education further enhance literacy, improving financial decision-making, including tax-related matters [15]. However, disparities persist across demographics, influenced by gender, age, and education [8]. As digital financial systems expand, digital financial literacy is increasingly vital for mitigating cybersecurity risks and navigating online platforms [8].

2.2 Tax Anxiety

Tax anxiety, driven by tax complexity and limited understanding of tax laws, leads to stress, non-compliance, and avoidance behaviors. Individuals with low financial knowledge, especially sole proprietors, often struggle with regulations, resulting in procrastination in tax filing [16]. Psychological factors such as tax morale, attitudes, and perceived fairness further exacerbate anxiety [17]. Institutional flaws and unclear tax rules add to uncertainty, discouraging effective tax planning [18].

Mitigation strategies include educational programs to enhance tax understanding [16]. behavioral interventions to build trust and tax morale [19], and policy reforms for clearer tax communication and structured policy management to improve compliance [18].

2.3 Tax Planning

Tax planning is the act of reducing tax liability through legal means with complete compliance with tax legislation. It involves analyzing financial situations, identifying tax-saving opportunities, and implementing strategies to attain tax efficiency [20], [21], thus resulting in better financial decision-making and reduced chances of disagreements with tax authorities on legal grounds [22]. The success of tax planning is directly proportional to the taxpayer's understanding of tax legislation and financial management skills because those who have a good understanding of financial concepts are likely to identify tax-saving opportunities and optimize their financial performance [23]. Conversely, low financial literacy among taxpayers can cause them to overlook essential aspects of tax planning, which translates to higher tax outgo and reduced financial stability.

2.4 Theoretical Framework

This study draws on the Theory of Planned Behavior (TPB) [24] in a bid to explain the interconnections between financial literacy, tax anxiety, and tax planning. TPB states that an individual's behavior is anticipated by their attitudes, perceived behavioral control, and subjective norms. Financial literacy can enhance perceived behavioral control by equipping people with the knowledge and confidence to handle issues related to taxation. This, in turn, reduces tax anxiety and promotes more constructive tax planning behaviors.

3. METHODS

3.1 Research Design

The study utilizes a cross-sectional survey design [25], which is best suited for examining relationships among variables at a specific point in time. Respondents' data were collected through the administration of a structured questionnaire, focusing on their financial literacy, tax anxiety levels, and tax planning effectiveness. The study aims to explore the direct and indirect relationships among these variables.

3.2 Population and Sample

The population of the study is individual taxpayers in Indonesia who are subject to the tax laws of Indonesia. Purposive sampling was used in selecting the respondents who possess basic knowledge of tax filing processes and are actively engaged in tax planning.

There were 78 respondents who participated in the study. This sample was found to be sufficient to conduct statistical analysis and have a good representation of the target population. Demographic information of the sample, including age, gender, and education level, was recorded to put the findings into perspective.

3.3 Data Collection Instrument

Data were gathered using a structured questionnaire with three general sections. The first section, Financial Literacy, examined the respondents' knowledge of financial concepts, tax laws, and their ability to use this knowledge in managing issues related to taxation. The items in this section were adopted from validated financial literacy scales in previous studies. The second section, Tax Anxiety, measured the affective responses of stress, fear, and uncertainty in complying with taxes, with items adapted to be relevant in the Indonesian context. The third section, Tax Planning Effectiveness, measured the ability of the respondents to create and implement plans that minimize tax liability in the framework of tax compliance. The items in this section measured practical aspects of tax planning, such as searching for deductions and optimizing tax payments. The items were rated on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Prior to distribution, pilot testing of the questionnaire was conducted on a small group of respondents to determine item reliability and clarity.

Data collection was conducted over a period of four weeks. The respondents were contacted through the use of online media and invited to participate in the survey. They were given a link to an online questionnaire for ease and accessibility. Participation was strictly voluntary, and the respondents were assured of confidentiality and anonymity of their responses to allow them to report accurately and truthfully.

3.4 Data Analysis

Analysis of data was carried out with the help of SPSS version 26 and was performed in certain major steps [26]. Firstly, descriptive statistics were calculated to summarize the demographic character of the respondents and provide an overview of the extent of their financial literacy, tax anxiety level, and tax planning effectiveness. Secondly, reliability testing and validity testing were carried out, where Cronbach's alpha was used to determine the internal consistency of the questionnaire's items and factor analysis to test construct validity. Pearson correlation coefficients were subsequently calculated to examine the relationships among financial literacy, tax anxiety, and tax planning effectiveness. Multiple regression analysis was then carried out to determine the extent to which financial literacy predicts tax anxiety and tax planning effectiveness, and the mediating role of tax anxiety in the financial literacy-tax planning effectiveness relation.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The demographic profile of the respondents indicates that the sample predominantly consists of individuals aged 25–40 years (65%) with higher education qualifications (75%), and most reported having moderate to high exposure to financial management and tax filing processes. The mean scores for the key variables are as follows: Financial Literacy (Mean = 4.12, SD = 0.56), Tax Anxiety (Mean = 2.89, SD = 0.67), and Tax Planning Effectiveness (Mean = 4.05, SD = 0.59). These results suggest that respondents generally exhibit a good level of financial literacy and effective tax planning, although they experience moderate levels of tax anxiety.

4.2 Reliability and Validity Testing

Cronbach's alpha values for the study variables were all above the acceptable threshold of 0.70, indicating good internal consistency, with Financial Literacy at 0.851, Tax Anxiety at 0.816, and Tax Planning Effectiveness at 0.872. Factor analysis further confirmed the validity of the constructs, as all items loaded significantly onto their respective factors.

4.3 Correlation Analysis

The Pearson correlation coefficients reveal significant relationships among the study variables: Financial Literacy and Tax Anxiety ($r = -0.421$, $p < 0.01$), Financial Literacy and Tax Planning Effectiveness ($r = 0.586$, $p < 0.01$), and Tax Anxiety and Tax Planning Effectiveness ($r = -0.362$, $p < 0.05$). These results indicate that financial literacy is negatively correlated with tax anxiety and positively correlated with tax planning effectiveness, while higher tax anxiety is associated with lower tax planning effectiveness.

4.4 Regression Analysis

The regression analysis yielded several key findings. First, financial literacy has a significant direct effect on tax planning effectiveness (Beta = 0.522, $t = 6.328$, $p < 0.001$), explaining 27% of the variance. Second, financial literacy also significantly reduces tax anxiety (Beta = -0.418, $t = -4.293$, $p < 0.001$), accounting for 17% of the variance. Finally, tax anxiety was found to partially mediate the relationship between financial literacy and tax planning effectiveness, as evidenced by the Sobel test ($z = 2.452$, $p < 0.05$).

DISCUSSION

The findings confirm that financial literacy influences tax planning efficiently. The members who were highly financially literate had better insight into tax law and utilized better tax-saving practices. The findings align with past research, as done by [27]–[29], citing the significance of financial knowledge on better financial choices. Within

Indonesia, it underlines educating the taxpayers through financial literacy so as to tackle the intricateness of taxation. The efforts of financial literacy campaigns conducted by the government would increase tax compliance as well as the efficiency in planning taxes tremendously.

Financial literacy negatively correlating with tax anxiety reveals that a financially more educated population suffers from reduced uncertainty and anxiety concerning taxation. This result echoes existing research conducted by [30], [31], as it emphasizes the role of financial literacy in anxiety alleviation. Anxiety about taxation generally arises because individuals lack comprehension of tax legislations and do not want to risk penalties. Increasing taxpayers' financial literacy allows policymakers to decrease this anxiety, thereby promoting improved compliance attitudes.

The partial mediation role of tax anxiety implies that while financial literacy has a direct impact on the efficacy of tax planning, it also indirectly contributes to this by reducing tax anxiety. This is a nuanced finding that underlines the interplay between psychological and cognitive factors in shaping taxpayer behavior. The mediating role of tax anxiety indicates the need for holistic interventions that combine financial education with stress-reduction interventions. For instance, simplifying tax filing processes and increasing access to tax guidance can be incorporated into financial literacy programs, eventually resulting in a more informed and confident taxpayer base.

Policy and Practice Implications

The results have important implications for tax policy in Indonesia. Improving financial literacy with focused public education campaigns can make taxpayers feel more confident and less anxious, facilitating better tax planning. Streamlining tax rules and giving people simple-to-use digital tools can also reduce anxiety and encourage compliance.

This study also contributes theoretical knowledge on how financial literacy influences the relationships between tax anxiety and tax planning and between financial literacy and tax anxiety. Based on the Theory of Planned Behavior (TPB), this study demonstrates the influence of financial literacy on enhancing perceived behavioral control, hence motivating tax-related behavior.

5. CONCLUSION

This study introduces the significance of financial literacy as a tool for reducing tax anxiety and maximizing the effectiveness of tax planning by individual taxpayers in Indonesia. The findings reveal that financially literate taxpayers can better understand tax rules, identify tax-saving opportunities, and manage tax liabilities confidently. In addition, decreased tax anxiety functions as a mediator, further highlighting the motivating influence of financial literacy on tax planning. The findings suggest that financial literacy not only increases cognitive skills in managing taxes but also decreases emotional distress in tax compliance. This dual benefit points to the need for integrated, holistic measures combining financial education with stress-management interventions to optimize tax compliance outcomes.

For policy-makers, the study provides justification for the rollout of mass financial literacy campaigns and tax procedure streamlining. Through both knowledge and psychological barriers being overcome, they can help shape a more optimistic and proactive Indonesian tax culture. Future research might explore the long-term effects of financial literacy interventions and examine parallel dynamics in alternative contexts or countries, contributing to a deeper knowledge of how financial education affects global taxpayer behavior.

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