Analysis of MSME Taxpayer Compliance with Tax Regulations in Indonesia

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A R T I C L E   I N F O

A B S T R A C T

This study aims to analyze the compliance of MSME taxpayers with tax regulations in Indonesia. This study employs a qualitative approach, utilizing a case study research design. The research was conducted in areas with a high concentration of MSMEs, which were selected purposively. Informants consisted of MSMEs who have registered as taxpayers, tax officers from the Tax Service Office (KPP), and tax consultants who handle MSMEs. Data collection techniques included in-depth interviews, observation, and documentation studies. Meanwhile, data analysis was conducted through the stages of data reduction, data presentation, and drawing conclusions and verification. The results of this study indicate that the level of MSME taxpayer compliance with tax regulations in Indonesia is influenced by their understanding, perception, and experience in carrying out tax obligations. Low tax literacy, administrative complexity, and a lack of trust in the government are the primary obstacles to achieving optimal compliance. However, an educational and personalized approach from the tax authorities is considered effective in building awareness and encouraging MSMEs to comply with tax obligations voluntarily.

INTRODUCTION

Indonesia is a developing country experiencing significant economic growth. The country has undertaken numerous infrastructure projects and public facilities to benefit the community, consistently striving to ensure equitable development for the well-being of its citizens.(Maxuel & Primastiwi, 2021)One way to achieve equitable development and adequate infrastructure is by maximizing state revenue from the tax sector. This is because the tax sector is the most significant contributor to a country's development and economic sustainability. (Hapsari & Ramayanti, 2022). Tax is an obligation that must be fulfilled by every individual and business entity to the state, which cannot be avoided because it has binding legal force (Kumala & Junaidi, 2021)This obligation stems from statutory regulations and must be fulfilled without expecting a direct response to the payment made. (Jihin et al., 2021).

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the Indonesian economy. According to data from the Ministry of Cooperatives and SMEs, MSMEs contribute more than 60% to Gross Domestic Product (GDP) and employ approximately 97% of the national workforce (Madjodjo & Baharuddin, 2022). Therefore, the sustainability and growth of the MSME sector is crucial, not only for the local economy but also for the country's fiscal stability through its contribution to tax revenue.

However, the level of tax compliance among MSME taxpayers in Indonesia remains relatively low. Several studies have demonstrated that many MSMEs lack a comprehensive understanding of their tax obligations, primarily due to limited information, low tax literacy, or a tax administration system perceived as complex and burdensome (Riswanto et al., 2017). This condition is exacerbated by negative perceptions of tax agencies and a lack of outreach and support from the government (Ristanti et al., 2022).

Currently, the government is focusing on increasing tax revenue from the private sector to boost tax revenue growth. The sector in question is the Micro, Small, and Medium Enterprises (MSMEs) sector. Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indonesian economy. According to data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM, 2023), MSMEs contribute approximately 61% to the national Gross Domestic Product (GDP) and absorb more than 97% of the Indonesian workforce. With more than 65 million business units, the MSME sector contributes not only to job creation but also to efforts aimed at achieving income equality and alleviating poverty. (Putra, 2020). However, the enormous potential of MSMEs has not been fully reflected in their contribution to state tax revenue. This highlights the need for a systematic assessment of MSME tax compliance levels. MSME Tax Compliance is a process that reflects the extent to which micro, small, and medium-sized businesses comply with and implement tax regulations established by the government. This process reflects the willingness and commitment of MSMEs to consistently and responsibly fulfill their tax obligations. (Nisaak & Khasanah, 2022).

Low compliance among MSME taxpayers with tax regulations is a persistent problem that has not been optimally addressed. Although the government has implemented policies to simplify MSME tax obligations, such as a final tax rate of 0.5% of turnover, as outlined in Government Regulation No. 23 of 2018, compliance remains relatively low. (Agustianto & Anggie, 2023). More than 60% of MSMEs still fail to fulfill their tax obligations in a timely and complete manner, particularly in terms of reporting and payment. This indicates a significant gap between the fiscal potential collected from the MSME sector and the actual revenue received by the state. (Lazuardini et al., 2020).

The government has issued various policies to encourage tax compliance among MSMEs, such as the implementation of a 0.5% Final Income Tax rate through Government Regulation (PP) No. 23 of 2018. However, tax revenue from this sector has not yet reached its optimal potential. This raises questions about the effectiveness of existing tax policies and the factors influencing MSME taxpayer compliance. (Zulma, 2020). Therefore, it is necessary to analyze the level of MSME taxpayer compliance and the factors that influence it, such as understanding of regulations, tax awareness, services from tax authorities, and ease of tax payment systems.(Yuliatic & Fauzi, 2020)This analysis is important as a basis for evaluating policies and making more targeted decisions to improve compliance and the contribution of the MSME sector to national tax revenue. (Fuadi & Mangoting, 2005).

Several factors contribute to low tax compliance among MSMEs. One of the most dominant factors is the lack of knowledge and understanding of tax regulations among MSMEs (Hutapea et al., 2023). Many MSMEs do not understand their tax rights and obligations, are unfamiliar with digital tax administration systems, or are even unaware of their status as taxpayers required to register and report their income. Therefore, assistance from tax authorities is necessary, especially in areas remote from access to tax services. (Yulianti, 2022). Because the higher the level of taxpayer understanding of tax regulations, the less likely it is that taxpayers will violate these regulations, thereby increasing taxpayer compliance (Mahaputri & Noviari, 2016). Furthermore, psychological and structural factors also play a significant role in non-compliance. Many MSMEs believe that the tax burden remains excessive for their businesses, particularly in a volatile and uncertain economic climate. This, coupled with the perception that taxes primarily benefit the government without providing direct benefits to businesses, fuels resistance to tax obligations. (Safitri & Silalahi, 2020).

From a regulatory perspective, although the government has implemented several tax reforms, including the launch of the e-filing system, e-bupot, and digital education through the DJP Online channel,

the effectiveness of these programs remains uneven across all MSME segments. Many MSMEs in the informal sector are not integrated with the formal financial system and lack adequate bookkeeping. (Wijaya & Yanti, 2023).This poses a significant challenge in the process of verifying income and objectively determining their tax obligations (Pratama & Mulyani, 2019).

Considering the strategic role of MSMEs in the economy and the importance of tax revenue to fund national development, a study on MSME taxpayer compliance with tax regulations is very relevant to conduct (Handriyani & Astawa, 2022). This research is important not only for understanding the extent to which MSMEs comply with tax regulations, but also for identifying the structural, psychological, and administrative barriers that hinder compliance. (Fitria & Supriyono, 2019). The results of this analysis are expected to provide constructive input for the government, particularly the Directorate General of Taxes, in formulating more inclusive tax policies that are grounded in field realities. Thus, an in-depth analysis of MSME taxpayer compliance with tax regulations will not only enrich the academic literature, but also contribute significantly to strengthening a just and sustainable national tax system.

RESEARCH METHOD

This research employs a qualitative approach, utilizing a case study design. This approach was chosen because it aims to explore in-depth the perceptions, understanding, and experiences of MSMEs in fulfilling their tax obligations, as well as to identify the factors influencing their level of compliance. The research was conducted in an area with a high concentration of MSMEs. The location was selected purposively, taking into account data availability and the diversity of MSME types. The subjects in this study were MSMEs registered as taxpayers, officials or tax officers from the local Tax Service Office (KPP), and tax practitioners or consultants who handle MSMEs. Informants were selected using a purposive sampling technique. Data collection was carried out through in-depth interviews, observation, and documentation studies. The data analysis techniques used were data reduction, data presentation, conclusion drawing, and verification.

RESULTS AND DISCUSSION

This research was conducted on 10 MSMEs in the culinary, retail, and service sectors, as well as two officers from the Tax Service Office (KPP) and one tax consultant. Data collection techniques included in-depth interviews, field observations, and documentation studies. The data collection and analysis yielded the following findings.

Understanding Tax Regulations

The majority of informants from Micro, Small, and Medium Enterprises (MSMEs) indicated a low level of understanding regarding applicable tax regulations. Most of them possessed fundamental knowledge, limited to general tax obligations and requirements. However, when questioned further about technical aspects, such as the classification of tax types, reporting procedures by regulations, and applicable tax rates based on business type or income, many admitted to not fully understanding them. This indicates an information gap and a lack of effective outreach or education regarding tax obligations among MSMEs. An MSME in the culinary sector stated:

"I know I have to pay taxes, but I do not know what I need to report. Sometimes I only learn about new tax regulations or obligations after a tax officer comes to my store." (Interview, culinary sector MSME)

This situation suggests that tax education and outreach efforts targeting Micro, Small, and Medium Enterprises (MSMEs) have not been implemented comprehensively and evenly across various regions. This lack of understanding directly contributes to low levels of tax compliance, both due to ignorance or negligence, and to erroneous assumptions that have developed among business actors. In some cases, there is a misperception that the obligation to pay taxes is only for large-scale companies, while small businesses feel excluded from the scope of tax regulations. This view highlights the need for a more intensive educational approach, enabling MSMEs to understand that they also share an equal responsibility to support state revenue through compliance with tax regulations.

Perceptions and Attitudes Towards Tax Obligations

The views of taxpayers from the Micro, Small, and Medium Enterprises (MSMEs) sector toward the tax system appear ambivalent, or conflicting. On the one hand, they recognize that paying taxes is part of their civic duty, a duty they must fulfill to support state funding. However, on the other hand, they harbor skepticism and distrust regarding how the government manages tax funds, particularly in terms of transparency and accountability in their use. Several MSMEs expressed reluctance to comply with their taxes because they do not directly experience the tangible impact or benefits of their contributions. The lack of a clear link between tax payments and improvements to facilities or support for the small business sector has led some to question the urgency and fairness of the current tax system. As expressed by a retail MSME:

> *"They say taxes are used for development, but in reality, the road in front of my shop remains damaged and has not been repaired. So sometimes I feel doubtful and think, 'What is the point of paying taxes?'" (Interview, retail MSME)*

The attitudes displayed by these business actors reflect a trust deficit or declining level of confidence in the government, particularly regarding the management of tax funds collected from the public. This distrust has the potential to become a serious obstacle to efforts to increase voluntary tax compliance, as taxpayers doubt that their contributions are truly being used effectively for the public interest. In this context, the government must take concrete steps to build a more positive, transparent, and responsive image. This includes providing clear information on tax allocation and utilization, as well as demonstrating tangible results from development funded by tax revenues, so that the public, including MSMEs, feel involved and directly benefit from their tax obligations.

Factors Inhibiting MSME Tax Compliance

The following are several factors that consistently emerge as obstacles to MSME taxpayer compliance, namely:

1. Complexity of Tax Administration

    Most business owners find the tax reporting and calculation process too complicated and confusing. This situation is further compounded by MSMEs, which often lack access to experts or dedicated staff to handle financial and tax matters. Consequently, they must handle the entire tax administration process themselves, which requires a thorough understanding of regulations, forms, and technical reporting systems. This often leaves them overwhelmed and unsure about fulfilling their tax obligations correctly.

2. Lack of Socialization

    Information regarding new regulations and tax incentives is often disseminated suboptimally. As a result, many business owners remain unaware of policy changes or tax

benefits they could potentially benefit from. This indicates that the authorities' outreach mechanisms have not effectively reached all levels of taxpayers.

3. Fear of Sanctions

Some business owners choose not to pay taxes, not out of reluctance, but rather because they fear making errors in the tax reporting or calculation process. This concern stems from the fear of being subject to sanctions or fines due to ignorance or unintentional errors. This fear leads them to shy away from and avoid the tax system altogether, rather than risk making errors that could result in legal or financial consequences.

These inhibiting factors are supported by statements from MSME Fashion actors who stated:

"I wanted to file my taxes, but I was worried about making mistakes in the process and about facing a hefty fine. So I decided not to file my taxes." (Interview, fashion sector MSME)

The Role of Tax Officers and Assistance

A fascinating observation is the recognition from several MSMEs that their tax compliance levels have improved after receiving direct assistance from Tax Service Office (KPP) officers. This assistance is provided through the "Business Development Services (BDS)" program or other field educational activities aimed at providing a practical understanding of tax obligations. The presence of tax officers who not only provide information but also are friendly, educational, and provide solutions, provides a sense of comfort and confidence for business owners in fulfilling their tax obligations. This humanistic and supportive approach has proven effective in encouraging behavioral changes, from initially being reluctant or confused to becoming more compliant with applicable tax regulations. This is supported by a statement from one informant who stated:

"Once the officer came in person and explained it slowly and clearly, I truly understood. From then on, I started paying and reporting my taxes regularly according to the regulations." (Interview, MSME)

This situation suggests that tax officers who can establish effective communication, be friendly, and demonstrate a humanistic approach are highly influential in shaping the positive attitudes of MSMEs toward their tax obligations. The presence of officers who not only rigidly convey regulations but also understand the challenges faced by taxpayers and provide persuasive solutions has been proven to increase awareness and compliance. Guiding and friendly interactions create a more comfortable atmosphere, so MSMEs feel supported rather than pressured in fulfilling their tax obligations.

CONCLUSION

Based on the research results, it is evident that the compliance of MSMEs as taxpayers with tax regulations in Indonesia is still primarily determined by the extent to which they understand the applicable tax regulations, their perception of the tax system, and their direct experience with the tax administration process. Low levels of tax literacy, the complexity of reporting and payment procedures, and a lack of trust in the government's transparency and fairness in managing taxes are the primary factors that hinder the realization of MSME taxpayer compliance as a whole. Amid these various challenges, a communicative, educational, and personal approach strategy from the tax authorities has proven effective in encouraging increased understanding and building higher awareness among MSMEs. This approach

not only improves the image of the tax system but also fosters the willingness of micro, small, and medium-sized enterprises to comply with tax obligations voluntarily.

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