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(AIJBES)**www.aijbbs.com**ANALYSIS OF THE IMPLEMENTATION OF
HARMONIZATION LAW OF TAX REGULATION 2021 FOR
MSME ACTIVITIES IN INDONESIA**

Setyo Mahanani^{1*}, Noorul Azwin Md Nasir², Nor Hadi³, Sri Retnoningsih⁴, Mohamad Hazeem Sidik⁵, Nurul Muna Mohamad⁶

¹ Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Malaysia
Email: a23e079f@siswa.umk.edu.my; setyo_mahanani@unwahas.ac.id

² Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Malaysia
Email: azwin@umk.edu.my

³ Department of Account, Institut Agama Islam Negeri, Kudus, Indonesia
Email: norhadi@iainkudus.ac.id

⁴ Department of Account, Universiti Wahid Hasyim, Semarang, Indonesia
Email: Sri_retnoningsih@unwahas.ac.id

⁵ Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Malaysia
Email: hazeem.ms@umk.edu.my

⁶ Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Malaysia
Email: nurulmuna.m@umk.edu.my

* Corresponding Author

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Abstract:

This study aims to examine the impact of the harmonization of Tax Regulations Law 2021 on micro, small and medium enterprises "(MSMEs) in Batang Regency, Central Java Province, Indonesia. This research uses a descriptive qualitative method involving MSME actors as respondents. The results show that most MSME players, regardless of whether they have a Taxpayer Identification Number or understand their tax obligations, still consider Government Regulation No. 23/2018 as burdensome. The new provisions introduced in the 2021 HPP Law, including the limitation of the tax imposition base, are considered fairer and more rational. However, there are still many MSME actors who are unaware of these regulatory changes due to limited tax knowledge, the demands of managing a business, and uneven socialization from tax offices and related institutions. Therefore, a more personalized and proactive approach is needed from the tax authorities and related agencies to provide education and assistance to MSME actors.

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**Keywords:**

MSME, Regulation Number 23 of 2018, Harmonization of Taxation Regulation, Socialization of Harmonization of Taxation Regulation 2021

Introduction

Taxes play an important role as the main source of state revenue collected from various sectors, including individual income, sales, imports, and business profits. One form of tax revenue sourced from business profits is tax collected from Micro, Small and Medium Enterprises (MSMEs). In Indonesia, MSMEs make a considerable contribution to economic growth by absorbing most of the labour force and being close to the community. Given the important role of MSMEs, the government continues to improve taxation policies to accommodate MSME taxpayers. However, complex tax regulations and high tax rates are often cited as the main challenges that hinder MSME in fulfilling their tax obligations. Tax policy can have a direct impact on the growth of MSMEs, so the government is advised to provide lower MSME tax rates (Lestari, 2019)

In this context, according to the Ministry of Cooperatives and Small and Medium Enterprises, as of March 2021, Indonesia has 64.2 million MSME which contribute 61.07% to national GDP or equivalent to IDR 8,573 trillion and the existence of these MSME is also able to absorb 97% of the workforce and the total accumulated investment in Indonesia reaches 60.42% (Kemenko Perekonomian, 2021). However, the contribution of MSME to tax revenue is still relatively low. In 2019, the final income tax collected from MSMEs amounted to only IDR 7.5 trillion or around 1.1% of total income tax revenue (Alatas, 2021). This gap is largely due to the limitations of MSME bookkeeping and taxation knowledge and the low number of MSME registered in the Directorate General of Taxes system.

Building upon this, the government has made various efforts to simplify the tax system, one of which is the issuance of Government Regulation (PP) No. 23 Year 2018 which is an amendment to PP No. 46 Year 2013. In this policy, the final tax rate for MSME is reduced from 1% to 0.5% of gross turnover. And in 2021, the latest law was issued, namely law no. 7 of 2021 concerning harmonization of tax regulations. One (1) of the contents of this law is to regulate a new pattern of tax calculation and collection for MSME actors (Indonesia, 2021). This rate reduction aims to encourage compliance, reduce administrative burden, and provide room for growth for MSME players. This policy was widely appreciated for its simplicity and perceived fairness, thus making MSME more bankable and expanding their access to financial institutions. However, the results of several previous studies related to the implementation of PP No. 23/2018 show that the policy has not been fully understood by MSME actors. Ningsih & Saragih (Ningsih & Saragih, 2020) found that most taxpayers who already have a business license and NPWP do not understand the contents of the MSME tax provisions in both PP No. 46 of 2013 and its amendment in PP No. 23 of 2018. In fact, some taxpayers only know the rates without understanding the provisions as a whole.

Previous research on analyzing the application of the latest laws in Indonesia has been conducted by several researchers (Amir, Mursalim, & Junaid, 2022; Fadli, Afifudin, & Hariri, 2023; Hutapea, Manurung, & Sihotang, 2023; Irawan & Erdika, 2021; Kusufiyah & Anggraini, 2024; Nohom, 2021; Purba & Purba, 2025; Rahayu Rahmadhani, Cheisviyanny, & Mulyani, 2020; Rahmadini & Cheisviyanny, 2019; Sahrir, Sultan, Syamsuddin, & Riyanti, 2022; Savitri, Syafitri, & Bustari, 2024; Setiawan & Prabowo, 2019; Way, 2024). Rahmadini & Cheisviyanny research (Rahmadini & Cheisviyanny, 2019) also concluded that taxpayers' understanding of the tariff reduction policy is still low, where most only know the 0.5% rate without understanding the bookkeeping obligations and the self-assessment system applied. The socialization of this law can support the effectiveness of the implementation of taxation with the latest scheme in accordance with the government's purpose (Mahanani, Retnoningsih, & Syarif, 2022). This study also shows that taxpayers welcome the rate reduction, but the reporting system and deadline are still considered confusing. Furthermore, Pramandari et al. (Pramandari, Yasa, & Herawati, 2018) highlighted that the socialization of PP No. 23 Year 2018 is still not optimal. Many MSME players, especially in the working area of KPP Pratama Singaraja, have not received direct socialization from the tax authorities. As a result, many still do not know the contents and provisions of the policy, although in general, MSME actors respond positively to the reduction in tax rates. According to Azizah & Fitriani (2023), limited human resources and tax literacy further hamper tax compliance among MSME.

The enactment of the Harmonization of Tax Regulations Law (HPP Law) Number 7 of 2021 is important in Indonesia's tax reform. This law aims to broaden the tax base, improve welfare, and create fiscal justice, including for Micro, Small, and Medium Enterprises (MSMEs). One of the main highlights is the 0.5% final income tax financing for MSMEs with gross income below IDR 500 million per year, as regulated under Government Regulation No. 23/2018. However, limited outreach and communication efforts have resulted in many MSME actors failing to understand or effectively apply the regulation (Triyono & Kusumawardhani, 2022). On the other hand, research in Bogor shows that changes in tariffs and taxable income limits have provided efficiency in the calculation of MSME taxes and improved presentation (Dariansyah, Meirinaldi, & Astuty, 2023).

Table 1: Previous Research and results

Name/Year		Research Title	Research Results
Yuni Abni Paramita Purba & Imelda Rimenda Purba (2025)		Analysis of the Level of Understanding of MSME Taxpayers of Government Regulation No. 23 Year 2018	The level of understanding of MSME taxpayers of Government Regulation No. 23 of 2018 in Silimakuta District, Simalungun Regency, is still relatively low. The low level of understanding and awareness of MSME actors is one of the main factors causing non-compliance in carrying out tax obligations. In addition, socialization that has not been carried out effectively also contributes to the low understanding of MSME taxpayers of PP No. 23 Year 2018.
Frazella Savitri, Yulia Syafitri, & Andre Bustari (2024)		The Effect of Implementation and Socialization of Umkm Tax Based on	The implementation of MSME tax based on PP No. 23 Year 2018 affects the level of taxpayer compliance. Meanwhile, the socialization of MSME tax has no effect on

- Government Regulation No. 23 of 2018 on the Level of Taxpayer Compliance (Case Study of MSME Actors in Purus Village, Padang Barat District, Padang City)
- Yunita Valentina Kusufiyah & Dina Anggraini (2024) The Impact of Government Regulation No. 55 Year 2022, Taxpayer Awareness, and Trust in Government on MSME Taxpayer Compliance
- Ach. Marzuki Fadli, Afifudin, & Hariri (2023) Analysis of MSME Taxpayers' Perceptions of the Implementation of Minister of Finance Regulation No. 44 of 2020
- Herti Diana Hutapea, Amran Manurung, & Kristiani Sihotang (2023) The Effect of MSME Taxpayer Perceptions of the HPP Law, Tax Socialization on MSME Taxpayer Compliance
- Andi Achdiati Amir, Mursalim, & Asriani Junaid (2022) Taxpayer Perceptions of Changes in PP No. 46 of 2013 to PP No. 23 of 2018 in Small and Medium Enterprises in Makassar City
- Sahrir, Sultan, Sofyan Syamsuddin, & Riyanti (2022) Perceptions of Micro and Small Enterprises (MSEs) Taxpayers on the Implementation of Government Regulation Number 23 of 2018 (Case Study of MSEs registered at KPP
- the level of compliance. Overall, the implementation and socialization of MSME tax based on PP No. 23 Year 2018 have an influence on the level of taxpayer compliance.
- Government Policy No. 55 of 2022 related to the reduction of MSME income tax rates has no effect on MSME taxpayer compliance in Padang City. Meanwhile, the level of awareness and trust in the government is proven to have an influence on the tax compliance of MSME players in the region.
- Many MSME players assisted by DISKOPINDAG have not taken advantage of the government-borne final income tax incentive (DTP). Although their understanding of taxation, tariffs, sanctions, convenience, and socialization is quite good, the majority of MSMEs only know the existence of these incentives without really understanding how to use them according to PMK No. 44 of 2020.
- MSME taxpayers' perception of the Harmonization of Tax Regulations Law (HPP Law) has an influence on their compliance level. In contrast, tax socialization does not show a significant influence on the compliance of MSME taxpayers.
- The change from PP No. 46 Year 2013 to PP No. 23 Year 2018 has provided justice for MSME taxpayers. However, these changes have not greatly improved the understanding of MSME taxpayers, because socialization related to this new regulation has not been carried out evenly in Makassar City.
- MSE taxpayers' perceptions of PP No. 23/2018 have fully run quite well in terms of rates, sanctions, convenience and tax socialization. With this regulation, MSE taxpayers feel that they get convenience in paying taxes, although some newly registered taxpayers still do not understand the applicable provisions.

	Pratama Utara)	Makassar	
Setyo Mahanani, Sri Retnoningsih, & Muhammad Naufal Syarif (2022)	Analysis Socialization Understanding Taxation on the Effectiveness of Tax Incentives during the Covid-19 Pandemic	of and of the Tax the	Tax socialization and understanding of taxation both have an influence on the effectiveness of tax incentives. With good socialization and understanding, the effectiveness of providing tax incentives to taxpayers who receive relief from the government during the COVID-19 pandemic will increase.
Ferry Irawan & Faizal Achmad Putra Erdika (2021)	Analysis of the Implementation of Government Regulation Number 23 of 2018 at the Tax Service Office Pratama Malang Selatan		The implementation of PP 23/2018 has a positive influence on the growth of individual taxpayers (entrepreneurs and free workers) and business entities. This policy also has a significant contribution to the total Final Income Tax revenue in the 2018 tax year at KPP Pratama Malang Selatan, which amounted to 8.11%. Meanwhile, PP 23 Year 2018 has a contribution of 1.68% to the total tax revenue in the 2018 tax year at KPP Pratama Malang Selatan.
Ida Elsani Nohom (2021)	Analysis of the Implementation of PP 23/46 on the MSME Tax Compliance Level at KPP Karangpilang		The compliance level of MSME taxpayers at KPP Pratama Karangpilang Surabaya has not reached the target when PP 46 Year 2013 was enacted, but has increased after the regulation was changed to PP 23 Year 2018.

Source: Data processed by researchers, 2024

Furthermore, the impact of the implementation of the HPP Law on MSMEs is also reflected in the perception and level of taxpayer compliance. Research in Surabaya shows that positive perceptions of the HPP Law, effective tax socialization, and fairness in tax rates have a significant impact on increasing MSME taxpayer compliance (Kisnawanto, 2024). In addition, research by Hartini and Suwandewi (2022) also found that the HPP Law provides a reduction in the tax burden for individual MSMEs, which can support their business continuity during economic recovery (Hartini & Suwandewi, 2022). Nonetheless, while the implementation of the HPP Law has its challenges, especially in terms of socialization and taxpayer understanding, this policy shows potential in improving tax understanding and efficiency in the MSME sector.

In Batang Regency, Central Java, MSME have proven to be resilient and adaptive. In 2021, this area recorded an economic growth rate of 4.8%, which was largely supported by the MSME sector (Jumadi, 2022). Based on data from the Batang Industry and Trade Office (DISPERINDAG), the number of MSME reached 10,492 and continues to grow. The local government actively supports MSME through training, mentoring, and entrepreneurship development programs, including 1,000 new entrepreneurs. MSME also receive Direct Cash Assistance (BLT) programs that benefit more than 6,800 MSME actors (Jumadi, 2020). One of the key initiatives is the *Nglarisi Dodolan* program, which provides opportunities for MSME

players to sell products around government offices. As a result, participating MSME reported a significant increase in turnover of up to Rp3 million for snack businesses and Rp1 million for non-food businesses every month. Nevertheless, challenge remain in overcoming the potential problem of tax understanding in society. According to Agus Junaedi, an MSME coordinator in Batang, the total turnover of MSME in his area per month reaches around IDR 38 million (Jumadi, 2021). This is in line with research that shows positive perceptions of MSME towards the utilization of digital marketing and e-commerce, especially during the COVID-19 (Ariyani, Hermawati, Helmi, Rosaira, & Budiansyah, 2021; Satrio, 2021).

Despite this effort, the new policy issued by the government is by passing the Law on Harmonization of Tax Regulations (UU HPP 2021). This law replaces PP No. 23/2018 and marks a new era in taxation policy. Taxes that are reasonably levied are regulated under various items of the HPP Law 2021, the most important of which is the Income Tax Cluster applicable from 2022 (Utama, 2021). A key benefit of the HPP Law is the tax exemption for MSMEs earning less than IDR 500 million per year. For MSME that exceed this threshold, tax is only levied on the excess of IDR 500 million. This aims to reduce the tax burden for small businesses while encouraging voluntary compliance and this law seeks to align tax obligations with the ability of taxpayers which is very important in fostering a culture of compliance. This provision is in line with the principle of fairness, where fairness can influence a person's decision (Herawati, Bulutoding, & Suwandi, 2020). However, the successful implementation of this regulation also depends on the government's ability to provide clear communication, education, and support for MSME to understand and adopt this new policy. Therefore, this study aims to analyse the implementation of the Harmonization of Tax Regulations Act of 2021 and evaluate its impact on MSME activities, with a focus on MSME in Batang Regency.

Literature Review

There are several points that will be discussed in this literature review, namely as follows:

Definition and Role of Taxes

Based on law number 28 year 2007, tax is an obligation that must be fulfilled by individuals and business entities to the state and is compelling in accordance with the provisions of the law, and without direct reward, and is used to support the interests of the state in order to improve the welfare of its people (Indonesia, 2007). According to (Azizah & Fitriani, 2023), taxes are the main pillar for state revenue, because around 80% of the total state revenue comes from the taxation sector. In addition, taxes also have various important functions. First, the budgeter function, which is to finance various state expenses. Second, the regulerend function as a tool to regulate economic growth through tax policy. Third, the stabilization function that plays a role in maintaining national economic stability. And finally, the income redistribution function, which is to finance the public interest, including development that can open up jobs and ultimately increase people's income (Pajak.go.id, n.d.). Based on these functions and the important role of taxes in terms of development and community welfare, the level of taxpayer compliance is an important factor. In Indonesia, the tax collection system used is a self-assessment system, where taxpayers are given full authority to calculate, pay and report their own taxes. According to Cristina (2021) taxpayer compliance is an action that shows awareness and obedience to tax regulations, by making payments and reporting taxes, both periodic and annual taxes in accordance with applicable regulations, both for individuals and business entities concerned.

Overview of MSMEs in Indonesia

According to Herawati et al. (2020), Micro, Small and Medium Enterprises (MSME) are a type of business that is run independently by individuals, both independent and under the auspices of a company. Based on (Indonesia, 2008) regarding the contents of Law No. 20/2008 on MSMEs, it is said that this sector is classified into three groups based on the amount of net assets (excluding land and buildings of the place of business) and annual sales results, namely: (1) Micro Enterprises, which are businesses owned by individuals or individual business entities with a maximum net worth of IDR 50 million and an annual turnover not exceeding IDR 300 million; (2) Small Enterprises, which are stand-alone businesses and not part of a medium or large enterprise, with a net worth of ranging from more than IDR 50 million up to IDR 500 million and an annual turnover of more than IDR 300 million to IDR 2.5 billion; and (3) Medium Enterprises, i.e. independent enterprises that are not branches or subsidiaries of small or large enterprises, with a net worth of more than Rp500 million to Rp10 billion, and an annual turnover of between Rp2.5 billion to Rp50 billion.

In general, the characteristics of MSME in Indonesia describe small businesses run by individuals or families with simple organizations, and often have not implemented formal accounting systems. In addition, many MSME operate in the informal sector, and have limited access to capital, technology and market information. Nonetheless, MSME show high resilience in the face of economic crises and play an important role in maintaining the economic stability of the community. However, in terms of taxation, MSME face various challenges that can interfere with their level of compliance in fulfilling their tax obligations. Problems such as lack of understanding of taxation, unclear tax regulations, and lack of socialization and assistance from the tax authorities often become obstacles.

Tax Challenges for MSMEs

The Indonesian government has issued a number of tax policies to improve compliance and ease the burden of tax administration for MSME. One of these policies is the issuance of Government Regulation (PP) Number 23 Year 2018, which replaces PP Number 46 Year 2013. The issuance of this new regulation is a form of evaluation and improvement of the previous provisions, with the aim of providing a tax system that is fairer, simpler, and in accordance with the actual conditions of MSME actors. In PP 23/2018, the tax rate is reduced to 0.5% of turnover. This lower rate aims to maximize MSME tax revenues contained in Government Regulation No. 23/2018 on Income Tax on Business Income received by Taxpayers with Certain Gross Revenues (Setiawan, 2019). This rate applies for a certain period of time depending on the type of taxpayer, namely 7 years for individual taxpayers; 3 years for corporate taxpayers in the form of limited liability companies; and 4 years for corporate taxpayers in the form of partnerships, firms, and cooperatives (Indonesia, 2018). After the period ends, taxpayers must follow the normal mechanism with appropriate bookkeeping and cannot use the final rate anymore. With this policy, the government hopes to gradually increase the participation of MSME in the tax system. It also gives them time to adjust to the more complex bookkeeping and reporting system. While the low rates and administrative ease are considered favourable, there are still issues. This is mainly related to how businesses understand the applicable regulations.

Policy Evolution: From PP No. 46/2013 to HPP Law 2021

On 7 October 2021, the Indonesian government passed Law Number 7 of 2021 on Harmonization of Tax Regulations (HPP Law) as part of the national tax system reform. The issuance of this law aims to strengthen a fair, healthy, effective, and accountable tax system.

Broadly speaking, there are 6 (six) scope of regulations, namely: (1) General Provisions and Tax Procedures, (2) Income Tax, (3) Value Added Tax (VAT), (4) Voluntary Disclosure Program, (5) Carbon Tax, and (6) Excise. Some of the main objectives of this regulation are to realize a fairer tax system that has legal certainty, encourage comprehensive administrative and tax policy reforms, broaden the tax base, and increase voluntary compliance from taxpayers (Indonesia, 2021). In the context of micro, small, and medium enterprises (MSME), the HPP Law brings some significant consequences, particularly in relation to the resetting of rates and imposition of income tax, VAT, and reporting provisions. While MSME still receive special treatment, such as low final rates or exemptions within certain limits, some of the new provisions, such as the increase in the VAT rate from 10% to 11%, and plans for further increases, may raise concerns for MSME actors. This is especially true for those who do not yet fully understand the tax system. In addition, the focus on digitizing the tax system forces MSME to start reporting and paying taxes online.

Methodology

This research uses a qualitative descriptive research method to analyse the 2021 Tax Regulation Harmonization Law for MSME Actors. It is measured based on MSME actors' understanding of tax regulations and their changes in tax fairness. The data was obtained from the results of interviews by researchers with correspondences. The selection of resource persons in this study was carried out using a simple random sampling technique. The number of correspondences in this study is 30 MSME actors in Batang Regency, Central Java Province, Indonesia.

Table 2: Interview Instrument

No	Indicator	Question
1	Understanding of tax obligations for MSMEs	1. Do you have a Taxpayer Identification Number? 2. When did you become a taxpayer? 3. Is bookkeeping/recording done in the business? 4. What tax do you pay on this business? 5. What are the difficulties/obstacles in calculating the tax payable? 6. What difficulties are experienced in recording the tax payment and reporting process?
2	Government Regulation Number 23 Year 2018	1. Has the implementation of Government Regulation No. 23 Year 2018 has been carried out by you? 2. What is your opinion/perception regarding the implementation of PP 23 Year 2018 which regulates the MSME tax rate of 0.5% on gross income? 3. Are there any obstacles in the implementation of PP 23/2018 related to your business? Your business?
3	Law Harmonisation Regulation Taxation Year 2021	1. What do you know about the Harmonization of Tax Regulations Law? What do you know about the Tax Regulation Harmonization Act? 2. What is your opinion/perception about the new regulation regarding limitation of tax imposition for MSMEs with a turnover of up to IDR 500 million subject to 0% tax starting in 2022? 3. Does the Harmonization of Tax Regulations Act of 2021 with restrictions on the basis of tax imposition reflect the fairness of MSME actors? 4. What is the impact of the implementation of the 2021 Tax HPP Law?

5. How do tax officials socialise the Harmonisation of Taxation Regulations Act of 2021?

Source: Data processed by researchers, 2024

Data can be obtained by conducting steps, namely interviews and documentation. Interviews are activities carried out with the aim of obtaining research data by conducting questions and answers directly face to face between the questioner and the interviewee. Interviews were conducted by researchers by asking questions directly or speaking verbally with MSME owners in Batang Regency. According to (Suárez & Daniels, 2009) the documentation technique is a data collection method to obtain important records relevant to the research problem, so that the data obtained will be comprehensive, accurate, and not speculative. The use of documentation techniques is with the aim of collecting data on taxpayers who are MSME actors.

The use of data analysis techniques in this study is with descriptive analysis techniques. Descriptive analysis technique is collecting, reviewing, and explaining data until it can draw conclusions to answer assumptions about the formulation of problems and research objectives (Dong, 2023). Several steps were taken to analyse the data as follows:

1. Analysis of taxpayers about understanding in connection with filling out tax returns, calculating taxes levied based on tax provisions which include payment, depositing and reporting taxes.
2. Analysis of the understanding of Batang Regency MSME players about the application of the Harmonisation of Tax Regulations Act 2021.
3. Draw conclusions and suggestions about the results of the study.

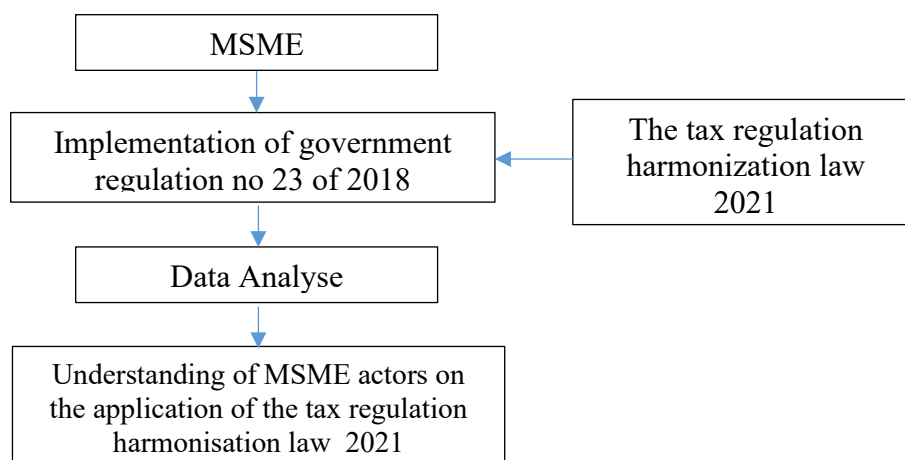


Figure 1: Framework

Source: Data processed by researchers, 2024

Findings

Based on the research results, it was found that:

The profile of MSME actors in general from informant data based on the type of business, gender, age, and turnover.

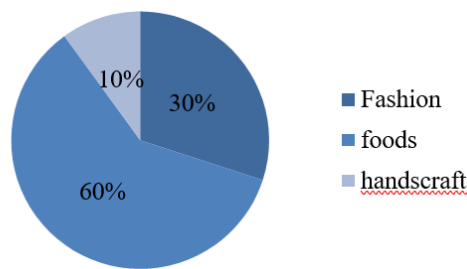


Figure 2: Informants Based On Type Of Business

Source: Data processed by researchers, 2024

Based on Figure 2, it can be seen that 60% of informants run businesses in the food sector, followed by fashion businesses at 30%, and handicraft businesses at 10%.

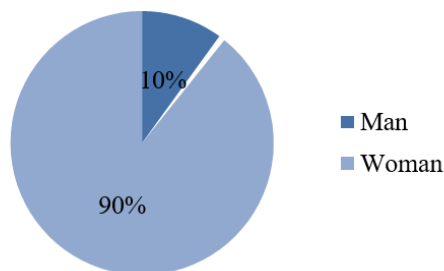


Figure 3: Informants Based on Gender

Source: Data processed by researchers, 2024

Based on Figure 3, the majority of MSME actors participating in this study are women, with a proportion of 90%, while male respondents only account for 10%.

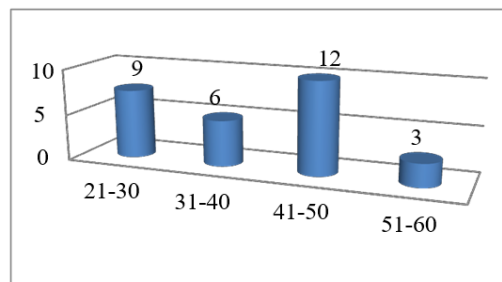


Figure 4: Informants Based on Age

Source: Data processed by researchers, 2024

Based on Figure 4, the distribution of informants of MSME actors in Batang Regency based on age group is shown. The majority of informants are in the 41-50 years age range with 12 people, followed by the 21-30 years age group with 9 people, 31-40 years age with 6 people, and the least is 51-60 years old with 3 people. This finding indicates that most of the MSME actors in this study are at a productive age, namely 41-50 years old.

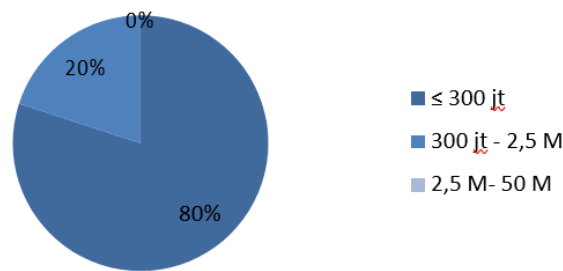


Figure 5: Informants Based on Turnover

Source: Data processed by researchers, 2024

Based on Figure 5, most MSMEs in Batang Regency have a turnover of ≤ 300 million, amounting to 80%, while the other 20% are in the range of 300 million to 2.5 billion. This finding indicates that the majority of respondents fall into the micro-enterprise category.

Evidence on Tax Compliance and Understanding

The results of interviews with MSME actors revealed that twenty-five actors already have a Taxpayer Identification Number (NPWP), while the rest do not. Those who do not yet have an NPWP give various reasons, such as a lack of understanding of taxation, the perception that taxes are only for big businesses, and a lack of awareness of the importance of paying taxes. As expressed by one respondent, Mrs. Bella:

“I haven't had time to make an NPWP, and I think NPWP is only for big businesses.”
(Respondent 01)

This indicates a lack of taxation knowledge among MSMEs, mainly due to a lack of socialization from tax authorities. Many MSME players are highly involved in their businesses and find it difficult to cope with taxation issues. Those who are registered as taxpayers often manage their taxes by visiting the local tax office, where staff assist in the process. The limited information available to MSME players results in less-than-optimal tax compliance, because they tend to pay taxes without fully understanding the calculations. The results of this study are in line with the research of (Ningsih & Saragih, 2020) who found that the understanding of MSME taxpayers about the General Provisions of Taxation is still low even though they already have an NPWP and have a business license. In line with that, (Azizah & Fitriani, 2023) stated that MSME actors have limited human resources to manage taxation which is an obstacle for them in paying taxes. In addition, tax literacy impacts competitive advantage, and competitive advantage impacts MSME performance. Financial literacy also has an impact on these factors. However, MSME performance is not affected by tax literacy. The relationship between tax and financial literacy and performance and competitive advantage may affect how well people understand the new rules (Deyganto, 2022).

Understanding of MSME Actors on Government Regulation No. 23 of 2018

MSME actors' understanding of PP No. 23/2018 is still limited. Of the respondents, only 10 MSME actors stated that they knew PP No. 23/2018. For most MSME actors who are registered taxpayers, the tax payment process is enough to visit the Tax Office to pay taxes without knowing the type of tax owed. When asked about the tax rate of 0.5% on gross turnover stipulated in PP No. 23/2018, many considered the rate burdensome, especially for micro businesses with small and unstable turnover. Research on Government Regulation Number 23 of 2018 conducted by (Rahmadini & Cheisviyanny, 2019) entitled “Analysis of MSME

Taxpayer Perceptions of Government Regulation 2018 (Case Study of MSME Taxpayers in Padang City)" found that although the 0.5% tax rate is considered relatively low, MSME actors still hope to be exempted from tax first..

Perceptions of MSME Actors Regarding the 2021 Harmonized Tax Law

The Harmonization of Tax Regulations Act of 2021 is generally considered to ease the burden on MSME players, especially those in the micro business category. For example, Ms. Yulaekha said:

"Emz.... for MSME with small incomes, they do not feel burdened. And for those with income above 500 million, although they have to pay taxes, only a portion of their turnover is taxed. So, I think this regulation is fair." (Correspondence 2)

Similarly, Respondent 3 argued:

"I think the new regulation is good, it doesn't matter when the turnover decreases." (Correspondence 3)

These statements indicate that the Harmonization of Tax Regulations Act of 2021, which limits the scope of taxation, has a positive impact, especially when the turnover decreases, they do not feel more burdened with tax payments.

However, there are differences of opinion. Respondent 4 disagreed, stating:

"I still disagree and MSME should not be taxed. Because in my opinion, the tax contribution is still not felt by the lower-class community. So if there is a tax imposition, it should only be on large businesses, and should not be levelled to micro businesses." (Correspondence 4)

Based on the results of the interviews, it can be said that most MSME actors agree with tax regulations such as the limitation of the tax base stipulated in the Harmonization of Tax Regulations Act 2021. The biggest reason MSME players agree is because they do not feel burdened and disadvantaged when there is a decrease in turnover. MSME actors who partly disagree with the Harmonization of Tax Regulations 2021 on the grounds that it is still burdensome for MSME actors even though there are basic restrictions on tax imposition and MSME actors, the majority of whom come from the lower class, must receive more attention and assistance from the government so that they are more enthusiastic in developing their business.

Socialization of the 2021 HPP Law

The Harmonization of Tax Regulations Act of 2021, which comes into effect in 2022, is relatively new and has drawn various reactions due to the uneven information received by MSME players. Almost all respondents stated that they had never received socialization from the tax authorities, and only one respondent claimed to have attended an event at the local Tax Office. Lack of information about new tax regulations leads to low taxpayer participation in fulfilling tax obligations. There are several factors that cause this. First, many MSME players are too busy with their business so they do not have time to take care of taxation. Second, tax officials are less consistent in reaching all MSME actors, especially those engaged in the MSME community, which is only a small part of the MSME in Batang Regency. In addition, awareness of the importance of taxes is still low, especially among micro business actors who

think that paying taxes can reduce profits. To overcome this, tax officials need to expand socialization efforts by directly involving MSME players, especially those who are elderly or do not have time to attend socialization events at the tax office.

Conclusion

The results of this research analysis show that the understanding of MSME actors towards tax obligations is still low, whether they have a Taxpayer Identification Number (NPWP) or not. Government Regulation No. 23/2018 is considered burdensome, especially for micro businesses, while the Harmonization of Tax Regulations Law (HPP Law) of 2021 is considered fairer and more acceptable because it is considered wiser. Limiting the tax base in the HPP Law is considered more beneficial, especially when business turnover decreases. The gap in tax knowledge and awareness among MSME players is due to limited information seeking and busyness. The socialization of the HPP Law in 2021 by the tax authorities is considered not optimal, so that broader and more personal socialization to MSME actors is needed so that their understanding and compliance are better. In general, the understanding of MSME players in Batang is still very lacking regarding the implementation of the 2021 tax regulation harmonisation law.

The suggestion that can be given by researchers to the government is that the government needs to conduct more widespread socialisation to the community. Taxation officers need to go directly to meet MSME actors personally to conduct socialisation, not just conduct socialisation at the tax office through invitations given to some MSME actors.

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