

Tax Strategy to Encourage MSME Growth: Analysis of Effectiveness and Constraints

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Abstract

Background: The COVID-19 pandemic significantly impacted Indonesia's economic growth, particularly affecting Micro, Small, and Medium Enterprises (MSMEs), which contributed significantly to the national GDP and non-oil exports. The prolonged enforcement of community activity restrictions (PPKM) limited physical sales channels, pushing MSMEs towards online platforms, albeit with varying success due to limited digital business knowledge among MSME owners. Objective: This study aims to analyze the effectiveness of tax incentives in sustaining MSME businesses during the pandemic and evaluate the challenges faced by MSMEs in using these incentives. Method: A qualitative descriptive approach using literature review was employed. Data sources include scholarly articles, government publications, and reports from relevant institutions such as the Ministry of Cooperatives and SMEs and the National Development Planning Agency (Bappenas). Results: Tax incentives, including reduced rates of Value Added Tax (VAT) and Income Tax (PPH), were introduced by the government to alleviate the financial burden on MSMEs and stimulate economic recovery. However, the effectiveness varies due to limited understanding and awareness among MSME owners about tax regulations and incentives. Many MSMEs struggled to meet the eligibility criteria or faced challenges in accessing the benefits. Conclusion: Despite government efforts to support MSMEs through tax incentives during the pandemic, significant barriers such as lack of awareness, complex eligibility requirements, and inadequate dissemination of information hindered their effective utilization. Continuous efforts are needed to increase awareness, simplify procedures, and ensure equitable access to tax incentives for sustainable MSME development.

1. Introduction

The growth of Micro, Small and Medium Enterprises (MSMEs) in Indonesia has long been the main pillar in driving the domestic economy, contributing significantly to the national Gross Domestic Product (GDP) and creating extensive employment opportunities. However, the impact of the Covid-19 pandemic that has hit the world since early 2020 has directly affected the sustainability of MSMEs in Indonesia. This pandemic not only limits access to capital and supporting infrastructure, but also significantly changes MSME sales patterns.

Data from the Ministry of Cooperatives and SMEs of the Republic of Indonesia in 2020 shows that MSMEs have contributed 60.6% to national GDP and 15.6% to non-oil and gas exports. However, the ongoing implementation of Community Activity Restrictions (PPKM) requires MSMEs to switch to online sales through various digital platforms. However,

MSMEs often face limitations in knowledge and understanding of online business, as well as difficulties in complying with complex tax regulations.

The direct impact of this pandemic can be seen from the results of a survey conducted by the Indonesian Business Development Services Association and the Ministry of National Development Planning (Bappenas) in 2020 with 6,405 respondents. More than half of respondents were from Java and Bali, with 36% of them admitting to having no sales at all, while 26% reported a decline in sales of more than 60%. Only 3.6% of respondents experienced an increase in sales during that period.

To respond to this challenge, the Indonesian government is taking serious steps by prioritizing MSMEs in the National Economic Recovery Program (PEN). One of the efforts made is to provide tax incentives to ease the tax burden on MSMEs during the pandemic. This

incentive includes various schemes, such as reduced rates of Value Added Tax (VAT), Corporate Income Tax (PPH), and Final Income Tax. The aim of this incentive is not only to reduce the tax burden, but also to encourage investment, increase competitiveness, and open wider market access for MSMEs.

However, the effectiveness of this tax incentive still requires in-depth evaluation. Training and socialization of tax regulations to MSMEs is crucial so that these incentives can be utilized optimally. Continuous improvements in the implementation and monitoring of tax incentives are also key to ensuring that MSMEs can continue to contribute to national economic recovery in the future. Therefore, this research aims to analyze the effectiveness of various types of tax incentives implemented and identify the obstacles faced by MSMEs during the Covid-19 pandemic.

2 Research Methodology

Based on the data and information provided, this research will use a descriptive qualitative approach to evaluate the effectiveness of tax incentives given to MSMEs during the Covid-19 pandemic in Indonesia. Data will be collected through a literature review which includes related articles, journals and books from various sources such as Google Scholar and other online databases. Apart from that, analysis will also be carried out on official documents such as laws and regulations related to tax incentives provided by relevant government institutions and non-government organizations.

The content analysis method will be used to analyze data to evaluate the effectiveness of the tax incentives provided, identify the most effective types of incentives, and identify the obstacles faced by MSMEs in utilizing them. Thus, it is hoped that this research can provide an in-depth understanding of the impact of tax incentives on MSMEs in Indonesia during the Covid-19 pandemic, so that the results can become the basis for developing better policies to support the growth and sustainability of MSMEs in the future.

3. Results and Discussion

Based on the results of research conducted on the effectiveness of tax incentives for MSMEs during the Covid-19 pandemic in the Galaksi Jaka Setia area, it can be concluded that this program has a significant influence on the continuity of MSME businesses. As stated by Oktavia et al. (2022), MSMEs experienced a significant decline in income during the pandemic, while still having to fulfill their tax obligations. To respond to this condition, the government has implemented various tax incentives, as regulated in PMK No.9 of 2021, with the aim of helping MSMEs maintain their hampered operations during this economic crisis.

Further research conducted by Riyanti et al. (2022) found that these tax incentives have a significant positive impact on the business continuity of MSMEs, although there are variations in the effect depending on the type of business and business strategy of each MSME, as confirmed by Wardana (2021). In Cimahi City, a field study by Larasati et al. (2022) also noted that the use of tax incentives makes a positive contribution in maintaining MSME businesses.

However, the research results of Firmansyah et al. (2022) in the PIK Pulogadung area shows that the majority of MSMEs do not fully understand or are interested in taking advantage of this tax incentive, due to a lack of socialization and understanding of the new policy. This is in line with the finding that only a small percentage of MSME taxpayers actually take advantage of the tax incentives that have been provided, as explained in the study by Kartika et al. (2022).

In conclusion, although tax incentives have helped some MSMEs overcome tax burdens and maintain their operations during the Covid-19 pandemic, there are still significant obstacles in socializing, understanding and accessing the benefits of these incentives. The government needs to increase socialization efforts and active assistance to MSMEs to ensure that these tax incentives can be utilized optimally, so that they can provide more effective support for the survival and growth of MSMEs in the future.

4. Closing

Based on existing data, during the Covid-19 pandemic, tax incentives have proven to be very important in supporting the continuity of MSME businesses. This program not only helps MSMEs to reduce their tax burden, but also increases liquidity and encourages business growth through various benefits, such as tax cuts, reduced rates, tax exemptions, and administrative facilities. With tax relief, MSMEs are encouraged to invest further, create new products, and increase their operational effectiveness.

However, there are still challenges in obtaining and utilizing these tax incentives. Technical assistance and clear communication need to be provided to MSMEs so that they can make optimal use of these incentives. Apart from that, it is important for the government to continue to evaluate the tax incentive program to ensure that the program is right on target and provides maximum benefits for the continuity of MSME businesses in Indonesia.

Thus, the sustainability of this tax incentive program will be the key to the recovery and economic growth of MSMEs in the future, which in turn will contribute to the national economy as a whole.

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