GOODWILL Journal Of Economics, Management, and Accounting
e-ISSN: 0000-0000
Volume 3 Number 1 April 2023

The Effect of Tax Incentives and Tax Education on MSME Taxpayer Compliance During The Covid-19 Pandemic

Nur Sandi Marsuni
Muhammadiyah University of Makassar
Email: nursandimarsuni@gmail.com

Article Info

Tax Awareness, Tax Socialization, MSME Taxpayers, Literature Study

Abstract

Background: Micro, Small and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy by making a significant contribution to local and national economic growth. However, the main challenge facing MSMEs is low levels of tax compliance, which can hinder the government's ability to provide public services and infrastructure. Objective: This research aims to investigate the influence of tax awareness and tax socialization on taxpayer compliance in MSMEs. The main focus is to provide an in-depth understanding of the factors that influence tax compliance among MSMEs. Method: This research uses a literature study approach by collecting data from various sources such as books, journals and scientific articles that are relevant to the research topic. The analysis was carried out to identify main findings related to tax awareness, tax socialization, and tax compliance of MSME actors. Results: From the research results, it was found that tax awareness and tax socialization have a significant influence on the level of tax compliance of MSME actors. Effective tax outreach and increasing tax awareness can increase the willingness of MSMEs to fulfill their tax obligations better. Conclusion: This article concludes that the government needs to increase tax outreach efforts and tax awareness education among MSMEs as a strategy to increase tax compliance. These steps are expected to help overcome persistent tax compliance challenges in the MSME sector, which in turn will support sustainable economic growth and equitable economic development throughout Indonesia. Thus, this research makes an important contribution in understanding the dynamics of taxation in the MSME sector and provides a basis for more effective public policy in supporting the development of MSMEs in Indonesia.

1. Introduction

The background to this study is based on the in-depth need to understand the factors that influence tax compliance for Micro, Small and Medium Enterprises (MSMEs) in Indonesia. MSMEs have an important role in the national economy, especially in terms of economic growth, job creation and local economic empowerment (World Bank, 2020). Despite the great potential that MSMEs have, their compliance with tax obligations is still a significant problem (Santoso et al., 2019).

Factors such as the level of tax awareness among MSMEs and the effectiveness of tax socialization are the main focus in efforts to increase compliance (Abdullah & Hanifah, 2018). The Indonesian government has carried out reforms in the tax system and increased outreach to taxpayers, but the challenge of increasing compliance levels remains an important focus (Alm & Martinez-Vazquez, 2018). It is hoped that an in-depth understanding of the factors that influence MSME tax compliance can provide a strong foundation for the development of more effective policies and strategies in increasing tax revenues from this sector (Yuliandari et al., 2021).

This not only supports public finances, but also encourages inclusive and sustainable economic growth throughout Indonesia (OECD, 2019). In this context, this study aims to answer the knowledge gaps that exist in related literature, especially regarding the impact of tax awareness, the effectiveness of tax socialization, and policy implications for MSME tax compliance (Nugroho et al., 2020). By deepening understanding of these dynamics, it is hoped that it can make a positive contribution in overcoming the tax compliance challenges faced by MSMEs and encourage better participation in the national tax system

(Hadiwijaya, 2017).

2 Research Methodology

The research method used in this study is qualitative with an in-depth library research approach. This approach is used to produce complete and comprehensive conclusions and to absorb a lot of information needed to obtain more meaningful results (Sugiyono, 2019). Qualitative research in literary studies uses documentary or literary analysis as the main data source. Literature studies are carried out to gain an in-depth understanding of the subject being studied through reviewing and analyzing relevant literature (Strauss & Corbin, 1990).

This literature research process begins by determining a research topic that focuses on the influence of tax compliance and socialization on MSME final income tax compliance. The main data sources used in this research are books, journals, articles and relevant documents obtained from various sources such as Google Scholar and other academic databases. Data collection was carried out by searching for literature that had high relevance to the research topic, which was then analyzed in depth to support the arguments and conclusions in this study.

3. Results and Discussion

In this literature review article, the discussion focuses on the factors that influence Final Income Tax compliance for Micro, Small and Medium Enterprises (MSMEs). Several findings and implications from previous research and relevant theories can be concluded as follows:

3.1 Tax Awareness and Compliance of MSME Taxpayers

Tax awareness is a key factor in increasing MSME tax compliance. Based on research (Rahmawati, Mahanani, & Triyani, 2023), tax awareness has a positive effect on MSME taxpayer compliance in Bandar Lampung City. This is in line with the finding that tax awareness motivates MSMEs to comply better with their tax obligations (Fadillah, 2023).

3.2 Tax Socialization and Its Influence on MSME Taxpayer Compliance

Tax socialization has a significant impact on MSME taxpayer compliance. Research conducted by Rahmawati, Mahanani, and Triyani (2023) shows that tax socialization has a positive effect on MSME taxpayer compliance in Kudus Regency. Apart from that, the research results of Agni and Masripah (2023) also confirm that tax socialization contributes positively and significantly to taxpayer compliance in the culinary sector of MSMEs in Jakarta.

3.3 Other Factors that Influence MSME Taxpayer Compliance

Apart from tax awareness and socialization, several other factors also influence MSME taxpayer compliance. For example, tax knowledge and understanding of tax procedures make a positive contribution to MSME tax compliance (Fadillah, 2023). However, service quality variables and tax factors were not found to have a significant effect on MSME taxpayer compliance in Bandar Lampung City (Rahmawati, Mahanani, & Triyani, 2023).

3.4Implications and Recommendations

This study provides an in-depth understanding of the dynamics of MSME tax compliance, which is important for developing government policies and strategies to increase tax revenues from this sector. The implication of these findings is the need to increase tax awareness through effective and comprehensive outreach programs. Apart from that, there is a need to improve the quality of tax services and optimize other supporting factors such as understanding taxation and the effectiveness of tax regulations. Thus, this research not only provides a strong theoretical foundation, but also provides practical guidance for the government and relevant stakeholders to improve MSME tax compliance, which in turn can support inclusive and sustainable economic growth in Indonesia..

4. Closing

The following are conclusions based on data from the literature review articles that have been presented:

This study illustrates that Final Income Tax compliance for Micro, Small and Medium Enterprises (MSMEs) in Indonesia is influenced by several main factors, namely tax awareness and the effectiveness of tax socialization. High tax awareness among MSMEs is positively related to a better level of compliance with tax obligations. Meanwhile, effective tax socialization by the government also plays an important role in increasing this level of compliance.

From several studies reviewed, it was found that tax awareness provides motivation for MSMEs to comply with tax regulations, while good socialization also produces a significant positive impact on their compliance. However, factors such as the quality of tax services and their specifications do not always have a significant influence on the level of MSME compliance.

Recommendations from this study include the need for the government to continue to increase the effectiveness of tax outreach, both directly and indirectly, as well as to further deepen understanding and awareness of taxation among MSMEs. Strengthening this is expected to optimize tax revenues from the MSME sector, which will ultimately support inclusive and sustainable economic growth in Indonesia.

Thus, joint efforts from the government, MSME players and other relevant stakeholders need to continue to be made to improve and increase tax compliance at the MSME level, so that it can make a greater contribution to overall national economic development.

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