

Tax of MSME in Indonesia

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Abstract

Tax for Micro, Small and Medium Enterprises (MSMEs) in Indonesia are an important aspect that influences the continuity and growth of these businesses. This study examines various tax obligations imposed on MSMEs, including Income Tax (PPh), Value Added Tax (VAT), as well as regional taxes and levies. This research found that MSMEs in Indonesia are regulated through a taxation system that includes Final Income Tax at a rate of 0.5% for MSMEs with an annual turnover of under IDR 4.8 billion, as well as VAT obligations for Taxable Entrepreneurs (PKP) whose turnover exceeds this threshold. Apart from that, MSMEs must also comply with regional tax obligations which vary based on business sector and location. The main challenges faced by MSMEs include the complexity of tax administration, low awareness and compliance with tax obligations, and the tax burden which is perceived as an obstacle. To overcome this challenge, the government has launched various initiatives such as digitizing the tax reporting system and education and mentoring programs for MSMEs. Although these efforts have shown positive results, additional steps are still needed to simplify administrative procedures, increase understanding of tax obligations, and provide greater support to MSMEs. This study provides insight into MSME tax policy in Indonesia and the challenges they face, and offers recommendations for improving tax policy that can support the growth and sustainability of MSMEs more effectively.

Keywords: MSMEs

Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a very vital role in the Indonesian economy. As the backbone of the national economy, MSMEs contribute significantly to Gross Domestic Product (GDP) and employment. Data from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia shows that MSMEs contribute around 60% of GDP and absorb more than 97% of the workforce. The existence of MSMEs not only drives economic growth but also promotes economic inclusion and entrepreneurship. However, although MSMEs have an important role, they often face various challenges in tax management. Tax obligations applied to MSMEs have their own complexities and are often one of the main obstacles in their operations. These challenges include understanding tax obligations, complicated tax administration, and tax burdens that are considered quite heavy for some MSME actors [1].

Micro, Small, and Medium Enterprises (MSMEs) play an important role in the Indonesian economy. According to data from the Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia, MSMEs contribute around 60% of the gross domestic product (GDP) and absorb more than 97% of the workforce in Indonesia. However, despite their significant contribution, the tax obligations faced by MSMEs are often a major challenge. This journal will discuss the tax obligations of MSMEs in Indonesia by reviewing relevant literature, the challenges faced, and the tax policies implemented [2].

MSMEs in Indonesia are defined Law Number 20 of 2008[3] concerning Micro, Small, and Medium Enterprises. MSMEs are categorized based on certain criteria such as the amount of assets and annual turnover:

- a. Micro Enterprises: Assets no more than IDR 50 million and annual turnover no more than IDR 300 million.
- b. Small business: Assets of more than IDR 50 million but not more than IDR 500 million and annual turnover of more than IDR 300 million but not more than IDR 2.5 billion.
- c. Medium Enterprises: Assets of more than IDR 500 million but not more than IDR 10 billion and annual turnover of more than IDR 2.5 billion but not more than IDR 50 billion.

Tax obligations for MSMEs include various types of taxes such as Income Tax (PPh), Value Added Tax (PPN), and regional taxes. Tax policies often differ based on the size and type of MSME business.

Income Tax (PPh) for MSMEs

Income Tax for MSMEs is regulated in the Income Tax Law and its derivative regulations. MSMEs can choose the Final Income Tax scheme to facilitate their tax obligations. This scheme sets simpler tax rates and does not require complicated recording.

Final Income Tax Rate: Based on Government Regulation Number 23 of 2018 [4], MSMEs with a turnover of not more than IDR 4.8 billion per year can be subject to a final income tax rate of 0.5% of turnover. This policy aims to ease the tax burden for MSMEs and simplify administration.

Value Added Tax (VAT)

MSMEs that meet certain limits in terms of annual turnover are required to include VAT. Based on Government Regulation Number 1 of 2012 [5], MSMEs with a turnover of less than IDR 4.8 billion per year can choose not to be subject to VAT.

Regional Taxes and Levies

In addition to central taxes, MSMEs must also comply with regional taxes and levies set by the local government. These taxes vary depending on the location and type of business, such as restaurant tax, hotel tax, and parking levies.

Administrative Complexity

Although the Final Income Tax scheme and VAT exemption are designed to simplify tax administration, many MSMEs still face difficulties in terms of recording and reporting. Lack of understanding of tax obligations and complicated administration are often the main obstacles.

Awareness and Compliance

Tax compliance of MSMEs is often low due to lack of knowledge about tax obligations. Many MSMEs do not fully understand the importance of tax obligations and their impact on their business.

Tax Burden

Although tax policies for MSMEs are designed to ease the burden, some MSMEs still feel burdened by taxes, especially those related to regional taxes and levies. [6] Some MSMEs feel that existing tax rates and administration still burden their businesses.

Simplification and Digitalization

The Indonesian government has launched various initiatives to simplify tax obligations and improve compliance, including the digitization of the tax reporting system. The e-invoice and e-SPT systems are some examples of these initiatives that aim to simplify the reporting process and reduce the risk of errors [7].

Education and Mentoring Program

Educational and mentoring programs have also been introduced to improve MSMEs' understanding of tax obligations. The Ministry of Cooperatives and MSMEs and the Directorate General of Taxes have conducted various training and socialization activities [8].

Tax obligations for MSMEs in Indonesia pose significant challenges, but existing tax policies are designed to simplify administration and ease the burden. However, tax awareness and compliance among MSMEs still need to be improved. Government policies such as the Final Income Tax scheme and VAT exemption for MSMEs with turnover below the threshold, as well as digitalization initiatives, are positive steps in supporting MSMEs. However, further efforts in terms of education and simplification of tax administration are needed to achieve better compliance and support sustainable MSME growth [9].

Research Methodology

The methodology in conducting this literature review aims to systematically and comprehensively examine and analyze existing literature related to the tax obligations of MSMEs in Indonesia. The approach used in this study includes several key steps as follows:

Identifying Topics and Objectives of the Study

Determining the focus area of the study, namely the tax obligations of MSMEs in Indonesia, with the aim of understanding tax policies, challenges faced by MSMEs, and government efforts in supporting tax compliance.

Literature Collection

Collect relevant literature sources from various types of documents, including legislation, government reports, academic studies, journal articles, and textbooks.

Selection and Evaluation of Sources

Selecting sources that have high relevance to the topic of study. [10] Evaluation is carried out based on the credibility, relevance, and contribution of the source to the understanding of MSME tax obligations.

Literature Analysis

Analyze and summarize information from the sources that have been collected to identify patterns, trends and key findings related to MSME tax obligations.

Synthesis and Presentation of Results

Presenting the results of the analysis in a structured narrative form, combining findings from various sources to provide a comprehensive picture of the tax obligations of MSMEs in Indonesia.

Results

Tax Obligations of MSMEs in Indonesia

Tax obligations of MSMEs in Indonesia include several types of taxes and provisions regulated by national tax regulations. The results of the literature review show that the tax obligations of MSMEs consist of Income Tax (PPh), Value Added Tax (PPN), and regional taxes and levies. The following is an in-depth discussion of the tax obligations of MSMEs based on the literature review [11].

Income Tax (PPh) for MSMEs

MSMEs in Indonesia are subject to Income Tax (PPh) based on applicable regulations. PPh for MSMEs is regulated in the Income Tax Law and its derivative regulations. MSMEs can choose a simplified taxation scheme as follows:

1. **Final Income Tax:** Based on Government Regulation Number 23 of 2018 [12], MSMEs with annual turnover not exceeding IDR 4.8 billion can be subject to a final income tax rate of 0.5% of turnover. This scheme is designed to facilitate tax administration by not requiring complicated recording and reporting, and reducing the risk of errors.
2. **General Income Tax:** MSMEs that do not choose the final income tax scheme or that have a turnover exceeding the final income tax threshold are subject to income tax based on a progressive rate in accordance with the general provisions of Article 17 [13] Income Tax. This progressive rate ranges from 5% to 30% depending on the amount of taxable income.

Value Added Tax (VAT)

Value Added Tax (VAT) is a tax on the consumption of goods and services imposed at every stage of production and distribution. VAT obligations for MSMEs are regulated in the following provisions:

1. **VAT Threshold:** Based on Government Regulation Number 1 of 2012 [14], MSMEs with annual turnover below Rp4.8 billion can choose not to be subject to VAT. This option provides convenience for MSMEs with small turnover to not be involved in complex VAT administration.
2. **Taxable Entrepreneurs (PKP):** MSMEs with annual turnover exceeding IDR4.8 billion are required to become Taxable Entrepreneurs (PKP) and report VAT. PKP must collect and deposit VAT from sales transactions and prepare tax invoices.

Regional Taxes and Levies

In addition to central taxes [15], MSMEs must also comply with regional tax obligations and levies set by the local government. These regional taxes and levies vary based on the location and type of MSME business:

1. **Restaurant Tax:** For MSMEs operating in the restaurant or catering sector, they must pay restaurant tax set by the local government.

2. **Hotel Tax:** MSMEs operating in the hotel sector are subject to hotel tax based on regional provisions.
3. **Parking and Other Fees:** MSMEs that have parking facilities or other activities that are subject to levies must pay according to local regulations.

Challenges in MSME Tax Obligations

Administrative Complexity

One of the main challenges faced by MSMEs is the complexity of tax administration. Although the final income tax scheme aims to simplify tax obligations, many MSMEs still experience difficulties in terms of tax recording, reporting, and calculation. [16] Complex administration is often a significant obstacle, especially for MSMEs that do not have the resources to manage tax obligations efficiently.

Awareness and Compliance

Awareness and compliance with tax obligations among MSMEs are still relatively low. Many MSMEs do not fully understand their tax obligations or are not aware of the importance of tax compliance. Lack of information and education regarding tax obligations contributes to low levels of compliance.

Tax Burden

Although there are policies to ease the tax burden for MSMEs, some MSME actors feel that taxes, both central and regional, still burden their businesses. [17] Especially for MSMEs who are forced to become PKP and must manage VAT, the administrative and financial burden can be a big challenge.

Government Efforts to Support MSMEs

Simplification and Digitalization

The Indonesian government has launched [18] several initiatives to simplify tax obligations and improve compliance among MSMEs. These initiatives include:

1. **e-Invoice and e-SPT System:** The implementation of the e-invoice and e-SPT systems aims to simplify tax reporting and administration. This digital system helps MSMEs in compiling and reporting tax invoices electronically, reducing the risk of errors and increasing efficiency.
2. **Digital Application and Platform Development:** The government is also developing digital applications and platforms to make it easier for MSMEs to access tax information, manage tax obligations, and communicate with tax authorities.

Education and Mentoring Program

To improve tax understanding and compliance among MSMEs, the government is implementing various education and mentoring programs [19]:

1. **Training and Socialization:** The Ministry of Cooperatives and Small and Medium Enterprises and the Directorate General of Taxes hold training and outreach regarding tax obligations and how to fulfill these obligations.
2. **Mentoring and Guidance:** Mentoring and guidance programs for MSMEs help business actors understand tax obligations and provide practical assistance in managing tax administration.

The real sector of the economy accounts for the lion's share of the tax sector. Micro, Small, and Medium Enterprises (MSME) is one of them (MSMEs). MSMEs can be thought of as independent, productive business units that are operated by organizations or people across a range of industries. MSMEs have a significant impact on the growth and development of a nation's economy in terms of taxation. According to data from the Directorate General of Taxation in 2020, up to 60 million micro, little, and medium-sized companies (MSMEs) have not yet completed their tax-payment requirements. Just roughly 2 million of Indonesia's 60 million micro, small, and medium-sized businesses (MSMEs) are known to be registered as taxpayers and to be paying state taxes. [20]

The importance of increasing understanding of tax accounting among MSMEs cannot be ignored, especially in the context of globalization and increasingly fierce competition. In facing this challenge, MSMEs need to equip themselves with adequate knowledge so they can take advantage of every existing opportunity and overcome the risks that arise from changes in tax policy. Therefore, training and education programs regarding tax accounting for MSMEs are highly recommended to improve their abilities in effective tax planning. Thus, this research makes an important contribution to the development of policies that support the growth of MSMEs through increasing understanding of tax accounting as part of an effective tax planning strategy. [21]

Conclusion

Tax obligations of MSMEs in Indonesia involve various types of taxes, including income tax, value added tax, and local taxes and levies. Although there are tax policies designed to simplify administration and reduce tax burdens, challenges in terms of administrative complexity, awareness, and compliance remain major issues. The Indonesian government has taken steps to simplify tax obligations and support MSMEs through digitalization, education programs, and mentoring. However, further efforts are needed to improve compliance and reduce administrative burdens so that MSMEs can operate efficiently and sustainably.

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