



## Evaluating The Implementation Of MSME Tax Policies In Indonesia: Benefits, Challenges, And Macroeconomic Implications

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**Abstract:** Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the Indonesian economy, contributing 61.07% to GDP and absorbing 97% of the national workforce. This study aims to analyse the implementation of MSME tax policies in Indonesia, specifically Government Regulation Number 55 of 2022, and to identify their benefits, challenges, and implications for the national economy. The research method uses a qualitative approach with a desk study through secondary data analysis from academic literature, tax regulations, and official government data. The results show that the implementation of the 0.5% Final Income Tax rate facilitates administration and encourages the formalization of MSMEs, but faces challenges such as low tax literacy, limited digital access, and issues of fiscal justice. The study concludes that MSME tax policies have a positive impact on economic inclusion and increased tax compliance, but require improvement through intensive education, administrative simplification, and periodic evaluation to achieve a balance between ease and fairness of taxation.

**Keywords:** MSME Tax, Final Income Tax, Tax Compliance

### INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a strategic role as the core of the Indonesian economy. According to the latest data, the number of MSMEs in Indonesia will reach more than 65 million by 2024, spread across various industries (Ministry of Cooperatives and SMEs, 2024). MSMEs contribute significantly to the national economy, reaching 61.07% of GDP, or IDR 8,573.89 trillion (DJPB, 2024). Furthermore, MSMEs employ approximately 117 million people, or 97% of the national workforce, making them the largest labor-intensive sector in Indonesia.

The obligation to comply with applicable tax regulations is known as tax compliance (Permata and Zahroh, 2022). Various variables in the context of small and medium enterprises (MSMEs) influence tax compliance. Ajzen developed the theory of behavioral planning, which states that a person's behavioral intentions influence their behavior, which is influenced by their attitude toward the behavior, subjective norms, and perceived behavioral control. In the case of MSME taxes, understanding tax compliance is related to perceived behavioral control, which is a



person's view of whether or not they have the ability to carry out the behavior (Permata and Zahroh, 2022).

The Slippery Slope Framework theory proposed by Kirchler et al. (2008) combines research findings on the determinants of tax compliance from psychological and economic perspectives. Power of Authorities and Trust in Authorities are two key dimensions identified in this theory. Taxpayers' perceptions of the tax authorities' ability to detect and punish tax violations are known as authority power. Trust in authorities, on the other hand, is the general belief that tax authorities act fairly and benevolently (Hanafi et al., 2022).

Given its strategic role, the Indonesian government pays close attention to the growth of the MSME sector, including by implementing fair tax policies. Tax policy for MSMEs has changed since Government Regulation Number 46 of 2013, which set a final income tax rate of 1%. Then, Government Regulation Number 23 of 2018 changed the rate to 0.5%, and Government Regulation Number 55 of 2022 amended the income tax regulations. For taxpayers with gross turnover exceeding IDR 4.8 billion in a year, final income tax is imposed at 0.5% of gross turnover (DJP, 2022).

The goal of implementing a low-rate presumptive tax policy is to simplify tax management, improve compliance, and encourage business formalization. However, various challenges hinder the implementation of this policy. A study by Hanafi et al. (2022) showed that although MSMEs have good knowledge and understanding of taxes, negative perceptions of taxpayers regarding the services they provide remain. According to Setyowati and Furqon (2025), the biggest obstacles to improving MSME tax compliance are a lack of tax knowledge, the belief that the tax system is unfair, and difficulty fulfilling administrative obligations.

Conversely, tax revenue from the MSME sector is still far from optimal considering their significant contribution to the national economy. This raises questions about the effectiveness of current MSME tax policies. Therefore, this study is important to comprehensively examine how MSME tax policies are implemented in Indonesia, to identify their benefits, challenges, and impacts on the national economy. It is hoped that this research will provide the necessary information to develop more efficient and equitable tax policies that will support the growth of small and medium enterprises (MSMEs) in Indonesia.



## **METHOD**

This study employed a qualitative approach with a library research method. The data used were secondary data collected from various reliable sources, including laws and regulations related to MSME taxation (PP 55/2022, the HPP Law), statistical data from the Ministry of Cooperatives and SMEs, official publications from the Directorate General of Taxes, scientific journals and academic articles related to MSME taxation, and reports from financial institutions and government agencies.

Data collection techniques were conducted through documentation and literature studies from print and electronic sources. Data were collected systematically to obtain comprehensive information regarding the implementation of MSME taxes in Indonesia. As stated by Sugiyono (2017), qualitative research methods are suitable for understanding complex social phenomena through in-depth analysis of secondary data.

The data analysis technique used a descriptive-analytical method, spanning several stages. First, data reduction involves selecting and focusing information relevant to the research topic. Second, data presentation takes the form of a systematic, easy-to-understand narrative. Third, data interpretation involves linking findings to the literature review to gain a deeper understanding. Fourth, conclusions are drawn based on a comprehensive analysis of all collected and analyzed data.

Data validity was ensured through source triangulation, which involved the use of multiple credible and accountable data sources. This research utilized official government publications, accredited journals, and official institutional reports to ensure the accuracy and reliability of the data used in the analysis.

## **RESULT AND DISCUSSION**

The current implementation of MSME tax policy in Indonesia refers to Government Regulation No. 55 of 2022, which refines the previous regulation. This policy uses a Final Income Tax scheme with a rate of 0.5% calculated from monthly gross turnover. This scheme applies the presumptive tax principle, simplifying tax calculations without requiring complete bookkeeping. Taxpayers simply need to keep simple records of their business's gross turnover.



The taxpayers eligible for this facility have been expanded to include Village-Owned Enterprises (BUMDes), Joint Village-Owned Enterprises (BUMDesma), and sole proprietorships (DJP, 2022). This policy imposes a maximum gross turnover limit of IDR 4.8 billion per year and differs in the utilization period for each type of taxpayer. Individual taxpayers can utilize it for seven years, PTs for three years, and CVs/Firms/Cooperatives for four years.

In addition, the HPP Law provides tax exemptions for gross turnover of up to IDR 500 million per year for individual taxpayers. Purnomo (2024) emphasized that taxpayers need to carefully consider the deadline for the final income tax rate for MSMEs to properly plan the transition to the regular tax system. Recent data shows that in December 2024, the government announced an extension of the 0.5% final income tax rate for MSMEs registered before 2018 until the end of 2025, providing a longer transition period.

The implementation of the MSME tax policy provides several significant benefits for the Indonesian economy. First, it simplifies tax administration. The presumptive 0.5% final income tax rate exempts MSME taxpayers from complex bookkeeping obligations. The Directorate General of Taxes (DJP) (2024) stated that this facility supports MSMEs and stimulates the economy by providing certainty and ease in calculating tax obligations. MSMEs only need to keep simple records of gross turnover, thereby reducing administrative burdens and compliance costs.

Second, it encourages business formalization. With low rates and simple procedures, this policy encourages more informal businesses to register as taxpayers and enter the formal tax system. This aligns with research by Hapsari and Kholis (2020), which shows that understanding tax regulations positively impacts taxpayer compliance.

Third, increasing legal certainty. The implementation of final rates provides certainty regarding the tax burden that MSMEs must pay, thus facilitating business financial planning. Taxpayers can easily calculate their monthly tax obligations without having to wait for complicated year-end calculations.

Fourth, tax exemption for micro-enterprises. The Final Income Tax exemption facility for annual turnover of up to IDR 500 million provides micro-enterprises with the freedom to develop their businesses without the burden of taxes in the initial stages. Endrianto (2015) emphasized the importance of the principle of fairness in MSME taxation, which takes into account the taxpayer's economic capacity.



Fifth, support inclusive economic growth. Data from the Ministry of Investment/BKPM shows that in the first semester of 2024, the MSME sector recorded 2.4 million projects with an investment of IDR 127 trillion and absorbed 4.69 million workers. Supportive tax policies contribute positively to the growth of this sector and provide equal opportunities for all levels of society to contribute to the formal economy.

Although the MSME tax policy offers many advantages, there are several challenges that need to be addressed. First, there is a lack of tax knowledge. Hafsah and Hanum (2023) found that MSME taxpayers lack understanding of general tax regulations and procedures. One factor contributing to MSMEs' non-compliance with their tax obligations is their lack of awareness of their tax obligations. This lack of awareness can lead to incorrect tax reporting or even unintentional non-compliance.

Second, the problem with digitalization. By July 2024, 25.5 million MSMEs had transformed and entered the digital ecosystem, according to data from the Ministry of Cooperatives and SMEs (2024). However, a digital tax reporting system requires new capabilities and adequate technological resources. To meet tax obligations, MSMEs newly transitioning to digital business must change their bookkeeping systems. This often requires additional costs for training and consulting.

Third, the issue of fiscal fairness. The final turnover-based tax rate ignores variations in profit margins among MSMEs. MSMEs with thin profit margins will bear a relatively larger tax burden compared to high-margin MSMEs with the same turnover. Setyowati and Furqon (2025) revealed that the perceived unfairness of the tax system is one of the biggest obstacles to improving MSME tax compliance.

Fourth, limited access to financing. Although the government has provided a People's Business Credit (KUR) program with a ceiling of up to IDR 500 million for Small KUR, many MSMEs still struggle to access financing from formal financial institutions. The Directorate General of Taxes (DJP) (2024) noted that approximately 47%, equivalent to IDR 1,209 trillion, of MSME financing needs cannot be met by financial institutions due to limited collateral or administrative requirements.

Fifth, additional administrative burdens. Permata and Zahroh (2022) explain that despite simplification, MSMEs still need to be more disciplined in recording transactions, preparing



financial reports, and filing taxes regularly. This can be a challenge because many business owners still manage their businesses simply and are unfamiliar with formal administrative systems.

Sixth, the low contribution to tax revenue. Although MSMEs contribute significantly to GDP (61.07%) and employment (97%), the tax revenue contribution from this sector remains very small. Nurlinda (2020) emphasized that if the tax potential of MSMEs is properly managed, it will increase regional original revenue from taxes and levies. This indicates a persistent gap between tax potential and realized revenue from the MSME sector.

The implementation of the MSME tax policy has several important implications for the Indonesian economy. First, it broadens the tax base. This policy has successfully broadened the tax base by encouraging more informal businesses to enter the formal tax system. The Directorate General of Taxes (DGT) (2024) stated that the implementation of presumptive taxation can improve MSME compliance and broaden the tax base. This positively contributes to improving Indonesia's tax ratio, which is currently relatively low compared to other ASEAN countries.

Second, increasing financial inclusion. By becoming formal taxpayers, MSMEs have easier access to formal financial services such as bank credit. Dahrani et al. (2022) emphasize the importance of financial literacy and financial inclusion in MSME financial management. MSMEs registered as taxpayers have a greater opportunity to obtain financing to expand their businesses.

Third, boosting the competitiveness of MSMEs. With a lighter tax burden, MSMEs can allocate more resources to improving product quality, innovation, and market expansion. The Coordinating Ministry for Economic Affairs (2025) reported that the government continues to encourage MSMEs to upgrade to increase their contribution to Indonesian exports, which currently only reaches around 15.7%.

Fourth, job creation. Tax policies that favor MSMEs support the growth of this sector, which is the largest absorber of labor. Data shows that the MSME sector absorbed 4.69 million workers in the first semester of 2024 alone, demonstrating its vital role in addressing unemployment (BKPM, 2024).

Fifth, economic stability. MSMEs have proven to be resilient in the face of economic crises. Marlinah (2020) emphasized that MSMEs have significant potential to strengthen the national economy, especially during difficult times. Support through favorable tax policies helps maintain national economic stability.



Sixth, limitations on short-term tax revenue increases. While this policy increases formal compliance, its impact on tax revenue increases in the short term is still limited due to its low rate. However, in the long term, as more MSMEs upgrade and switch to the regular taxation scheme, it is hoped that this will contribute to tax revenue. taxes will increase significantly.

## CONCLUSION

The development of the MSME sector in Indonesia has accelerated thanks to the implementation of the MSME tax policy, Government Regulation 55/2022, which includes a 0.5% final income tax rate and tax exemptions for businesses with annual turnover of up to IDR 500 million (individual taxpayers). This policy fosters inclusive economic growth, improves formal compliance, increases business formalization, and simplifies tax administration. Policy support for MSMEs is crucial, given their contribution of 61.07% to GDP and employment of 97% of the national workforce.

Implementing this policy still faces several significant challenges. Hafsah and Hanum (2023) found that many MSMEs lack taxpayer understanding of tax regulations. Setyowati and Furqon (2025) found that some of the biggest obstacles to improving MSME tax compliance are a lack of tax knowledge, a perceived unfairness of the tax system, and difficulty fulfilling administrative obligations. Furthermore, the MSME sector's contribution to the national economy is substantial, yet its tax revenue remains suboptimal.

The study identifies several challenges, including low tax literacy, digital transformation barriers, perceived fiscal injustice, limited financing access, and the sector's small contribution to tax revenue despite its major economic role. These issues hinder optimal compliance and equitable tax outcomes. The findings indicate that MSME taxation positively affects Indonesia's economic stability, employment, and competitiveness by expanding the tax base and fostering financial inclusion. Yet, its short-term fiscal impact remains limited due to low rates. The research recommends enhancing tax education, simplifying digital systems, offering mentoring incentives, and conducting regular evaluations to balance administrative ease and fairness.



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