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Perceptions of MSME Actors Toward the Implementation of Tax Policies and Their Impact on Tax Compliance and Business Sustainability (A Qualitative Study in South Jakarta)

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ABSTRACT

This study examines the perceptions of Micro, Small, and Medium Enterprises (MSMEs) regarding the implementation of tax policies and their influence on tax compliance and business sustainability in South Jakarta. The research applies a qualitative approach through a case study method. Data were obtained from in-depth interviews with several MSME actors selected through purposive sampling techniques. The collected data were analyzed using data reduction, data display, and conclusion drawing methods. The findings reveal that MSME perceptions toward tax policies differ significantly. Some business owners perceive taxation as an important obligation that supports national development, while others consider tax policies burdensome due to limited tax literacy, inadequate socialization, and difficulties in understanding digital taxation systems. These conditions influence the willingness and ability of MSMEs to comply with tax regulations. Furthermore, the implementation of tax policies creates both administrative and financial consequences for MSMEs. On one side, tax policies encourage more structured financial administration and better business governance. However, on the other side, tax obligations may affect cash flow and business sustainability, particularly among micro-scale enterprises. Therefore, strengthening tax education, increasing tax socialization programs, and providing technical assistance are necessary to improve voluntary tax compliance and maintain MSME sustainability.



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Introduction

Micro, Small, and Medium Enterprises (MSMEs) are a key pillar of Indonesia's national economy, contributing significantly to gross domestic product and employment (Kementerian Koperasi dan UKM, 2023). In urban areas such as South Jakarta, MSMEs play a strategic role in job creation, local economic growth, and income distribution, particularly in post-pandemic economic recovery where they have proven more resilient than large enterprises.

To enhance MSME sustainability, the government has introduced simplified and inclusive tax policies, including a final tax rate of a small percentage of gross turnover for businesses below a certain revenue threshold under Government Regulation Number Twenty Three of Two Thousand Eighteen. This policy aims to simplify tax administration and encourage voluntary participation in the tax system (Adhi et al., 2021).

However, its implementation remains suboptimal due to limited tax understanding, lack of information access, and negative perceptions of taxation as a burden. These constraints contribute to low tax compliance among MSMEs, particularly in urban contexts. Perception plays a crucial role, where positive views may enhance voluntary compliance, while negative perceptions can reduce compliance and lead to tax avoidance (Rahayu, 2017).

Tax compliance also directly affects business sustainability. Compliant MSMEs tend to gain better access to financing, government programs, and legal recognition, which strengthens long-term competitiveness (Tambunan, 2019). Prior studies confirm that internal factors such as awareness and understanding significantly influence compliance behavior (Rizalti, 2024; Shafira, 2024). Therefore, it is essential to explore how MSME actors perceive tax policy implementation and how these perceptions influence compliance and business sustainability, particularly through a qualitative approach that captures their experiences, constraints, and expectations.

Table 1. Number of MSMEs Participating in JakPreneur Program in DKI Jakarta (2023)

Administrative Region	Number of MSMEs
South Jakarta	67,208
East Jakarta	50,880
West Jakarta	48,201
North Jakarta	39,398
Central Jakarta	34,717
Thousand Islands	3,496
Total	243,972

Furthermore, data from the Food Security, Marine Affairs, and Agriculture Agency (KPKP) of DKI Jakarta indicate that the turnover performance of assisted MSMEs fluctuated throughout 2023. In the third quarter of 2023, MSME turnover reached Rp144.43 billion, but declined to Rp122.6 billion by the end of the year (KPKP DKI Jakarta, 2024).

Table 2. Turnover of MSMEs Assisted by KPKP DKI Jakarta (2023)

Period	Turnover (IDR)
Q2 2023	85.3 billion
Q3 2023	144.43 billion
End of 2023	122.6 billion

This fluctuation may indicate the presence of structural challenges, including suboptimal tax compliance. This is relevant to the objective of the DKI Jakarta Provincial Government, which in 2024 targets an increase in turnover for 325 MSME actors, highlighting the importance of operational efficiency and administrative compliance in supporting business sustainability (KPKP DKI Jakarta, 2024).

Furthermore, the composition of MSME business types in Jakarta is dominated by the culinary sector, with 167,986 business actors, followed by fashion (18,181), crafts (8,275), and others (49,530). This indicates that most MSMEs operate in sectors that are vulnerable to fluctuations in operational costs and consumer purchasing power, making taxation one of the factors that influence their business sustainability.

Table 3. Types of MSME Businesses Participating in the JakPreneur Program (2023)

Type of Business	Number of MSMEs
Culinary	167,986
Fashion	18,181
Crafts	8,275
Others	49,530

Most MSME actors fall within the productive age range of 40–44 years, indicating strong potential to enhance tax compliance through targeted educational approaches. However, despite government efforts in education and assistance, tax compliance among MSMEs in South Jakarta remains a critical issue. Many MSME actors still lack a clear understanding of tax policy benefits and obligations, while negative perceptions persist, viewing taxes as reducing profit margins and increasing administrative burdens.

Based on these conditions, this study aims to: analyze the implementation of tax policies for MSMEs in South Jakarta, identify factors influencing MSME tax compliance, and examine the impact of taxation on business operations and sustainability, including the risk of business discontinuation due to tax burdens.

This research offers novelty by applying an in-depth qualitative approach to explore MSME tax policy implementation and compliance. Unlike prior studies that predominantly use quantitative methods focusing on variables such as tax awareness, sanctions, and trust, this study emphasizes implementation aspects and MSME perceptions. This is crucial, as perception and understanding significantly influence compliance behavior.

Empirical evidence supports this argument. Rizalti (2024) found that tax awareness and sanctions have a positive and significant effect on MSME tax compliance, while trust in government is not significant. Similarly, Shafira (2024) showed that tax understanding, tax rates, and sanctions significantly influence MSME compliance, although both studies employ quantitative approaches and do not specifically examine policy implementation in South Jakarta.

Therefore, this study is expected to contribute to MSME taxation literature by providing more comprehensive and contextual insights into tax policy implementation and compliance. These findings may serve as a basis for developing more effective and responsive policies tailored to MSME conditions. Taxation for MSMEs presents complex implications for both compliance and business sustainability. While Government Regulation Number Twenty Three of Two Thousand Eighteen offers simplified taxation through a low final rate, many MSME actors still face challenges in understanding and implementing tax obligations due to low tax literacy and negative perceptions. These conditions highlight the need for research that not only examines variable relationships but also explores how tax policies are implemented in practice and how MSME actors respond. South Jakarta is a relevant setting due to its dynamic urban economy and high MSME concentration.

Method

This study employs a qualitative descriptive approach using a case study method to explore the perceptions of MSME actors regarding the implementation of tax policies and their impact on tax compliance and business sustainability. The qualitative approach is considered appropriate as it allows the researcher to gain an in-depth understanding of social phenomena and the subjective experiences of MSME actors in responding to tax policy implementation. According to Creswell (2016), qualitative research is suitable for exploring complex issues by focusing on the meanings individuals assign to their experiences. Furthermore, the case study method enables the investigation of contemporary phenomena within real-life contexts, particularly when the boundaries between the phenomenon and its context are not clearly defined (Yin, 2018).

This research was conducted in South Jakarta, a strategic urban area with a high concentration of MSMEs and diverse business characteristics. The selection of this location is based on its relevance in representing dynamic economic activities and the practical implementation of tax policies among MSME actors in an urban setting. The study focuses on MSME actors who are actively engaged in business operations and are subject to tax regulations, particularly those falling within the criteria outlined in Government Regulation Number Twenty Three of Two Thousand Eighteen.

The data collection process was carried out through in-depth interviews, observations, and documentation. Primary data were obtained from MSME actors selected using purposive sampling, a technique that allows the selection of participants based on specific criteria relevant to the research objectives. In this study, informants were chosen based on their business experience, involvement in tax obligations, and willingness to provide comprehensive information regarding their perceptions and experiences related to taxation. Secondary data were collected from official reports, government publications, and relevant literature to support the analysis.

Data analysis was conducted using an interactive model consisting of data reduction, data display, and conclusion drawing. This approach enables systematic organization and interpretation of qualitative data to identify patterns, themes, and relationships among variables. The process begins with data reduction, where relevant information is selected and simplified, followed by data presentation in the form of narratives or thematic categorizations, and finally, drawing conclusions based on the interpreted data. This analytical framework ensures that the findings are grounded in empirical evidence and reflect the actual conditions experienced by MSME actors.

To ensure the validity and reliability of the data, this study applies data credibility techniques such as triangulation, prolonged engagement, and member checking. Triangulation is conducted by comparing data from different sources and methods to enhance consistency and accuracy. This approach aligns with the qualitative research principles emphasized by Neuman (2014), who highlights the importance of capturing social phenomena in a naturalistic and interpretative manner.

Results and Discussions

Perceptions of MSME Actors Toward Tax Policy Implementation

The findings of this study were obtained through in-depth interviews with twenty-four MSME actors in South Jakarta, revealing diverse yet contextual perceptions toward tax policy implementation. These perceptions are shaped by tax knowledge, personal experience, and the level of socialization received.

In general, most MSME actors demonstrate initial awareness of tax obligations; however, their understanding remains limited to a normative level and does not fully cover technical aspects such as tax calculation and reporting procedures. This indicates a gap between tax awareness and tax literacy, where compliance tends to be administrative rather than based on comprehensive understanding. This finding aligns with Nurmantu (2018), who argues that low tax literacy leads to formal compliance driven by avoidance of sanctions rather than substantive awareness.

Furthermore, perceptions of tax procedures are influenced by experiences with digital systems such as e-filing and e-billing. Although these systems are intended to simplify administration, some MSME actors still face difficulties due to limited technological literacy, resulting in dependency on external assistance. This supports Devos (2014), who states that perceived complexity in tax systems may reduce compliance if not accompanied by adequate support and education.

In addition, tax burden is often perceived as a financial pressure, particularly during periods of declining income. Nevertheless, MSME actors tend to maintain compliance due to the importance of business legality and tax registration. This reflects the role of perceived tax fairness in shaping taxpayer behavior, as emphasized by Kirchler (2007), where fairness perception significantly influences compliance attitudes.

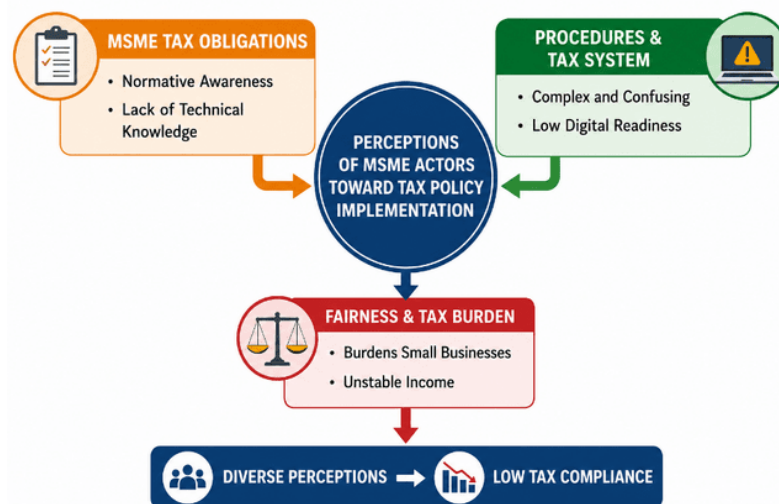


Figure 1. Pattern of MSME Actors' Perceptions Toward the Implementation of Tax Policies

Figure 1. illustrates the perception pattern of MSME actors toward tax policy implementation, which is shaped by three main aspects: understanding of tax obligations, perceptions of tax procedures and systems, and views on tax fairness and burden. The findings indicate that although MSME actors possess normative awareness of tax obligations, limited technical understanding, administrative complexity, and perceived tax burden, particularly among micro-scale businesses, significantly influence their overall perception of tax policies and subsequently affect their compliance behavior.

Factors Influencing MSME Actors' Tax Compliance with Tax Obligations in South Jakarta

Based on in-depth interviews with seven informants, this study finds that MSME tax compliance is influenced by several key factors identified through qualitative thematic analysis. The results highlight four main determinants: low understanding of tax regulations, technical difficulties in using electronic tax systems, misconceptions regarding MSME tax obligations, and inconsistent compliance behavior. A summary of these findings is presented in Table 4.

Table 4. Summary of Key Factors Contributing to MSME Tax Non-Compliance

Main Theme	Respondents	Interpretation
Lack of understanding of tax regulations	R2, R3, R5, R6, R7, R11, R12, R15, R16, R18	Respondents have limited understanding of MSME tax obligations, including tax registration, tax rates, and reporting and payment procedures.
Technical difficulties with electronic systems	R3, R4, R7, R9, R10, R11, R19	Respondents experience challenges in using e-billing and e-filing systems due to limited digital literacy and lack of technical assistance.

Main Theme	Respondents	Interpretation
Misconceptions about tax obligations	R2, R3, R5, R12, R13	Respondents assume that micro-scale businesses are not fully required to comply with tax obligations.
Inconsistent or administrative compliance	R1, R6, R7, R8, R9, R10, R14, R20, R21, R22, R24	Tax compliance is performed in an administrative or situational manner, influenced by business legality needs and income conditions, rather than a comprehensive understanding of the tax system.

a. Lack of Understanding of Tax Regulations

The findings indicate that limited understanding of tax regulations remains a key factor affecting MSME tax compliance. Although all respondents already possess a Tax Identification Number, their technical knowledge of tax procedures, such as reporting and calculation, is still inadequate, leading to uncertainty in fulfilling tax obligations independently.

b. Technical Difficulties in Using Electronic Systems

Tax compliance is also influenced by technical challenges in using electronic tax systems such as e-billing and e-filing. Limited digital literacy and fear of making errors often cause confusion and lead to delays in tax payment, indicating that digitalization is not yet fully accessible for all MSME actors.

c. Misconceptions about Tax Obligations

The study reveals that some MSME actors perceive tax obligations as flexible and dependent on business conditions, particularly income fluctuations. This perception weakens the consistency of compliance, as tax obligations are not viewed as a mandatory and routine responsibility.

d. Inconsistent Compliance Behavior

Compliance among MSME actors tends to be reactive and situational, often triggered by external reminders rather than intrinsic awareness. This indicates that tax compliance is still administrative in nature and not yet supported by a strong internal understanding and commitment.

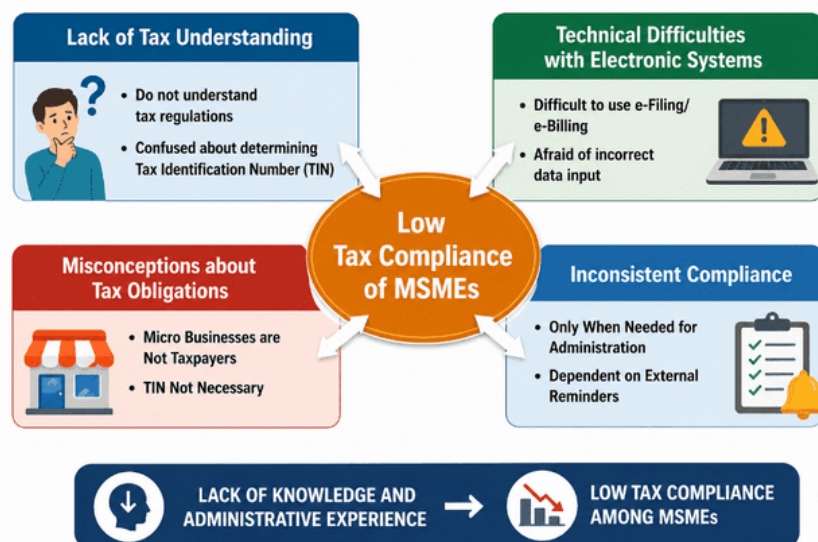


Figure 2. Pattern of Factors Influencing MSME Actors' Tax Compliance in South Jakarta

Figure 2. illustrates the pattern of factors influencing MSME tax compliance in South Jakarta. The findings indicate that compliance is shaped by the level of understanding of tax regulations, the ability to use electronic tax administration systems, perceptions of MSME tax obligations, and the consistency in fulfilling tax responsibilities.

These factors are interrelated and suggest that low tax compliance among MSMEs is primarily driven by limited understanding, administrative experience, and inaccurate perceptions, rather than a deliberate unwillingness to comply.

The Impact of Tax Policy Implementation on Tax Compliance and Business Sustainability of MSMEs in South Jakarta

Based on in-depth interviews with MSME actors, the implementation of tax policies generates varied impacts on tax compliance and business sustainability. These impacts are influenced by the level of tax understanding, administrative readiness, and individual experience in fulfilling tax obligations.

From an administrative perspective, tax policy implementation increases the need for financial record-keeping and reporting, which is initially perceived as an additional burden but gradually improves business management. Financially, taxation is often viewed as a burden, particularly during periods of unstable income, although some experienced MSME actors begin to integrate tax obligations into routine business costs.

In terms of tax compliance, MSME actors who receive adequate information and assistance tend to demonstrate higher compliance, while technical challenges in digital systems may hinder timely reporting (Devos, 2014). Furthermore, tax compliance contributes positively to business sustainability by enhancing legal certainty, reducing future risks, and improving access to financing.

However, motivation for tax reporting remains inconsistent and situational, often influenced by operational priorities and external reminders. This indicates that compliance behavior among MSMEs has not yet fully developed into a consistent and self-driven practice.

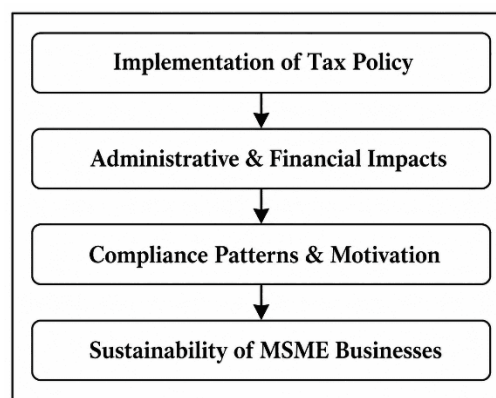


Figure 3. Pattern of the Impact of Tax Policy Implementation on MSME Tax Compliance and Business Sustainability

The mini diagram in Figure 3. illustrates that the implementation of MSME tax policies generates administrative and financial impacts, which shape compliance patterns and tax reporting motivation. These patterns subsequently influence business sustainability, where MSME actors who adapt to tax obligations tend to have more organized businesses and greater long-term growth potential.

Discussion

The findings of this study indicate that MSME actors' perceptions toward the implementation of tax policies are shaped by their understanding of tax obligations, administrative experiences, and perceptions regarding tax fairness and tax burden. These findings support the perspective of tax compliance theory, which explains that taxpayer behavior is not solely influenced by formal regulations and sanctions, but also by psychological and cognitive factors, particularly how tax policies are perceived and interpreted by taxpayers. From the perspective of the Theory of Planned Behavior proposed by Icek Ajzen, MSME perceptions regarding tax policies influence attitudes, subjective norms, and perceived behavioral control, which subsequently shape the intention to comply with tax obligations. When tax policies are perceived as complicated and burdensome, taxpayers tend to develop negative attitudes that weaken their willingness to comply. Conversely, adequate understanding and perceptions of fairness may encourage positive attitudes and strengthen tax compliance intentions.

The results are also consistent with the concept of tax literacy introduced by Safri Nurmantu, which explains that limited taxation knowledge causes taxpayers to understand tax obligations only normatively without mastering the technical aspects of implementation. This condition potentially creates uncertainty and

incorrect perceptions in fulfilling tax obligations, particularly among MSMEs that often experience limited access to information and professional assistance.

In addition, perceptions regarding tax fairness and tax burden were found to play a significant role in shaping taxpayer compliance behavior. According to Erich Kirchler, perceptions of tax fairness directly influence taxpayer trust in tax authorities and encourage voluntary compliance. Therefore, MSME perceptions that tax policies are fair and proportional to business capabilities become essential factors in building sustainable tax compliance.

The study further reveals that MSME tax compliance is influenced by several factors, including understanding of taxation regulations, administrative capability, perceptions toward tax obligations, and consistency of compliance behavior. These findings align with the Fischer Model of Tax Compliance, which states that taxpayer compliance is the result of interactions between individual factors, taxation systems, and administrative environments. In the context of MSMEs, limited taxation knowledge and weak administrative capability indicate that individual factors remain dominant in determining compliance levels. Taxpayers with adequate tax literacy are generally more capable of fulfilling their tax obligations independently and consistently.

The findings also demonstrate that technical difficulties in using electronic taxation systems significantly affect MSME compliance. This supports the argument proposed by Ken Devos that complex tax administration systems may become barriers to compliance, particularly for small businesses with limited resources and digital literacy. Although tax digitalization aims to improve efficiency, it cannot fully increase MSME compliance without adequate guidance and assistance. Moreover, the study found that some MSME taxpayers still demonstrate inconsistent compliance behavior driven mainly by external pressures rather than internal awareness. This condition reflects the concept of enforced compliance, in which taxpayers comply due to administrative pressure or fear of sanctions rather than voluntary awareness. Previous studies suggest that compliance based solely on external pressure tends to be unsustainable and may decline when supervision weakens.

Furthermore, the implementation of tax policies has both administrative and financial implications for MSMEs, which subsequently affect tax compliance patterns and business sustainability. Tax policies function not only as fiscal instruments but also as regulatory instruments that shape business behavior and governance practices. Excessive administrative and financial burdens may weaken taxpayer compliance, especially when MSME actors perceive that tax obligations are not proportional to their business capacity. However, this study also highlights that, in the long term, tax policy implementation can encourage better business administration and increase MSME formalization. Businesses with proper tax administration and compliance tend to have broader access to financing opportunities and government support programs, thereby contributing to long-term business sustainability. The findings also emphasize that educational and persuasive approaches are more effective in building voluntary tax compliance among MSMEs compared to purely repressive approaches. Therefore, improving tax literacy, simplifying taxation systems, and providing continuous assistance are essential strategies for enhancing MSME tax compliance and supporting sustainable business development.

Conclusions

This study concludes that the implementation of tax policies has a significant influence on tax compliance and business sustainability among MSMEs in South Jakarta. The findings reveal that MSME perceptions toward tax policies remain diverse and are strongly influenced by taxation knowledge, administrative experience, and perceptions regarding tax fairness and tax burden. Limited understanding of taxation policies causes many MSME actors to perceive tax obligations as complex and burdensome, which ultimately affects their willingness to comply with tax regulations. The study also indicates that MSME tax compliance has not yet been fully voluntary. Compliance behavior is still constrained by limited tax literacy, technical difficulties in using electronic taxation systems, and misconceptions regarding MSME tax obligations. As a result, taxpayer compliance tends to be inconsistent and often depends on external encouragement, such as administrative requirements or notifications from tax authorities. Furthermore, the implementation of tax policies creates both positive and negative impacts on MSME sustainability. On one hand, taxation is perceived as an administrative and financial burden, particularly for micro-scale enterprises with unstable income. On the other hand, tax policies encourage better business administration, improve business formalization, and increase opportunities for accessing financing and government support programs. Therefore, sustainable and educational taxation approaches are essential to strengthen voluntary tax compliance and support long-term MSME sustainability.

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