

# **Tax Incentive Effects for Increasing Productivity and Growth for MSMEs Entrepreneurs in Banyumas**

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## **ABSTRACT**

The decrease in Final Income Tax (PPh) is expected to increase the entrepreneurial interest of MSMEs in the Banyumas Regency. One of the theories capable of encouraging the creation of entrepreneurial motivation is the theory of planned behavior coined by Victor Vroom in 1964. Therefore, this study aims to analyze the development strategy of MSMEs after the decline in the final income tax rate of 0.5% through the theory of the planned behavior approach. The exploratory descriptive and qualitative methods were used to conduct this research. The result is expected to identify strategies to grow and develop Banyumas MSMEs entrepreneurs.

**Keywords:** Decreasing Final Income Tax, Entrepreneurial Interest, Business Strategy, Theory of Planned Behavior, MSMEs Banyumas

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## **1. Introduction**

The pandemic has presented unique problems and opportunities for international business and entrepreneurship (Parnell, 2020). This is a concern and danger to at least three aspects of life that have the most impact, namely health, economy, and education (Arrizal, 2020). The pandemic led to a significant decline in turnover for Micro, Small, and Medium Enterprises (MSMEs) actors (Julialevi & Mutsaqqof, 2022). In 2010, the number was around 52.8 million, and in 2018 it increased to 64.2 million, thereby absorbing 97% and 99% of the total workforce. However, the pandemic led to a significant decrease in the number of MSMEs, with some going out of business (Julialevi & Mutsaqqof, 2020).

According to the Creative Economy Agency, MSMEs contribute approximately 852.5 trillion or 7.38% of the gross domestic income. Suryani (2018) stated that the strength of this enterprise in building the Indonesian economy is due to their advantages in several factors, namely the ability to focus on national flexibility, low costs, and speed of innovation. Therefore, MSMEs must continue to be developed and improved with full support from the government by reducing the amount of income tax (Neneng Susanti & Vincentia Wahyu Widajatun, 2021).

Governments worldwide have implemented various support programs for small firms to alleviate

their financial constraints, including the grant of the preferential corporate tax rate (Wei Cui, 2021). The President emphasized that reducing their tax is to lower costs and increase growth. Micro, small and medium-sized enterprises grew into small, medium, and large-sized businesses. Initially, MSMEs had an income tax of 1%, initially, 1%, was changed to 0,5%. VAT restitution is becoming more convenient, and the final income tax for UMKM is presently calculated at the rate of 0.5% of gross revenue (Ernie & Marcelino, 2021).

## **2. Literature Review**

### *2.1. Theoretical Basis*

#### 2.1.1. MSMEs

##### 2.1.1.1. MSMEs Definition

The impact of the COVID-19 pandemic on MSMEs is fatal indeed globally. Presently, large businesses use all possible means to restore their volumes and margins. However, these eager attempts by large businesses are likely to sideline smaller ones from the market. To reclaim their space by winning back a significant market share, the MSMEs need to get their act together, think out of the box and rediscover themselves in unprecedented ways (Ambika Zutshi, 2021).

MSMEs play an important role in increasing economic growth in Indonesia. This analysis is proven by the 1997 financial crisis that hit Indonesia (Umu Khourh, Achmad Sudiro, Mintarti Rahayu and Nur Khusniyah Indrawati, 2020) MSMEs are characterized by low efficiency, operating in open spaces, and dilapidated structures with their sustainability strengthened through transformation during crisis (Mohanty, Elisa, and Anindya Jayanta Mishra, 2020; Chunguang Bai, Matthew Quayson, and Joseph Sarkis, 2021). However, in carrying out its role, this category of enterprises is also faced with obstacles and constraints, such as issues related to capital (Ica Rika Candraningrata, 2020). The poor availability and access to capital is one of the major problems of MSMEs (Assed Lussak, 2020)

MSMEs are defined in accordance with Law Number 20 of 2008 as follows (Asih Machfuzhoh & Refi Pratiwi, 2021):

- Micro enterprises are productive businesses owned by individuals and business entities that meet the criteria for their existence as stipulated in the law.
- Small Business is a productive enterprise carried out by an individual or a business entity that is not a subsidiary or branch of a company. Furthermore, it is not owned, controlled, or part of a medium or large business either directly or indirectly.
- Medium business is a productive that conducted by an individual or business entity that is not a company's subsidiary.

##### 2.1.1.2. MSMEs Classification

MSMEs can be classified into four groups according to Law No. 20 of 2008, namely (Bambang Jatmiko, 2021),

- **Livelihood Activities:** These are MSMEs used as work opportunities to earn a living, commonly known as the informal sector, such as street vendors.
- **Micro Enterprise:** an MSMEs that has the nature of a craftsman without entrepreneurial attributes.
- **Small Dynamic Enterprise:** an MSMEs with an entrepreneurial spirit capable of accepting subcontracting and export work.

- Fast Moving Enterprise: an MSMEs with an entrepreneurial spirit capable of transforming into a big business.

MSMEs are regulated in the Republic of Indonesia Law No. 20 of 2008.

- Micro Enterprises are productive businesses owned by individuals or business entities that meet the criteria for Micro Enterprises.
- Small Enterprises are standalone productive economic businesses carried out by individuals or entities that are not subsidiaries but owned and controlled by the company.
- Medium Enterprises are productive economic businesses that stand alone and are conducted by individuals or business entities that are not subsidiaries or branches of companies with net worth proceeds regulated by law.
- Large Enterprises are productive economic businesses carried out by a business entity with a net worth greater than a Medium Enterprise, including state-owned and foreign businesses and joint ventures.
- Business World comprises Micro, Small, Medium, and Large Enterprises that conduct economic activities in Indonesia (Ria Amaliyah, 2021).

#### 2.1.1.3.Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB), initially known as the Theory of Reasoned Action, was used to predict an individual's intention to engage in a behavior at a specific time and place in 1980. However, in the 1970s, it evaluated the psychological factors of investigated behaviors and performed well in interpreting and predicting various pro-environmental behaviors (Li, 2022). The theory was intended to explain all behaviors over which people had the ability to exert self-control. Among the behavioral predictor models, the theory of planned behavior is the most reliable due to the focus on some variables, such as consumer attitudes, subjective norms, and perceived behavioral control (Parisa Ahmmadi, 2021). The key component of this model is behavioral intentions, which are influenced by the attitude about the likelihood of the expected outcome and the subjective evaluation of the risks and benefits.

The TPB has been applied extensively to predicting a diverse range of health behaviors in multiple populations and contexts (Hagger, 2022). TPB is a theory about individual behavior influenced by individual intentions towards certain behaviors. A person's intentions are determined by attitudes (Behavioral belief), subjective norms (Normative belief), and behavioral control (Sulistiyani & Harwiki, 2016). According to TPB, individual behavior in society is influenced by certain factors originating from various reasons (Ghouri, Khan, & Abdul Kareem, 2016).

The TPB has three components: behavioral belief, normative belief and behavioral control. These relate to beliefs about the existence of things that support or hinder one's behavior. Tax

#### 2.1.1.4.Definition of Tax

Tax is a public contribution to the State treasury based on the mandatory act with no reciprocal services, which can be directly demonstrated and used to finance public expenditure (Marpaung, 2020). According to Halim, Bawono, and Dara (2020), taxes are financial obligations that individuals or entities must pay to the state, which are used to finance public expenditures, including the construction of facilities.

The tax system is one of the main regulators of the economy for the accumulation of income. It is

the main source for the formation of revenue for the government at all levels, with receipt provided by the administration system (Lyudmila Ripol-Saragosi & Ekaterina Gomeleva, 2021). Tax regulation is a way to economically analyze the issue of tax rates, size, and changes to reduce the shadow segment of the economy, intensify activities, and attract investment (Sokolovskyi, 2021).

Tax elements can be described as follows (Hafied Noor Bagja, Laras Angelia Nirwana Sari, 2021):

- An underlying law, mandates the collected with statutory regulations.
- An authority, such as a government, collects taxes and not private individuals.
- A subject, such as an individual or entity burdened with the obligation to pay taxes.
- An object, which means a target, needs to be taxed in the form of circumstances, deeds, or events.
- There are public interests, meaning that tax collection results must return to the community for its benefit.
- An assessment letter is not absolute but optional. This means that an assessment is not needed for certain types of tax.

#### 2.1.1.5. Tax Rates

The government plays an important role in determining the tariff and setting tax-related policies (Soemitro, 2004: 129). For instance, Government Regulation No. 46 of 2013 states that individual and corporate taxpayers with income not included from services related to free work, with gross turnover not exceeding 4 digits, must pay tax at a rate of 0.5% based on justice and the provisions of the applicable law (Irsan Permana & Tri Endar Susianto, 2021). This was stated in Government Regulation (PP) Number 23 of 2018 concerning Income Tax for taxpayers with certain gross circulation as a substitute for Government Regulation Number 46 of 2013, effective as of July 2018.

PP 23 of 2018 regulates the imposition of Final Income Tax Article 4 Paragraph (2) for taxpayers with a gross turnover of up to IDR 4.8 billion in one tax year. It revokes Government Regulation Number 46 of 2013, and the main points of the amendment are as follows (Sumampouw, 2022):

- Reduction of 1% Final Income Tax rate to 0.5% of turnover.
- Taxpayers can select to follow the tariff with a final 0.5% scheme or use the normal process, referring to Article 17 of Law Number 36 of 2008 concerning Income Tax.
- The imposition period of Final Income Tax rates of 0.5% is:
  - 7 years for Individual Taxpayers.
  - 4 years for corporate taxpayers in the form of cooperatives, limited partnership, or firms.
  - 3 years for corporate taxpayers in the form of Limited Liability Companies.

MSMEs can increase productivity and contribute to regional and individual income when managed properly. The state's role is to provide an effective regulatory framework and monitoring and enforcement mechanisms. Therefore, the government must consider that such tax support or incentives are needed for MSMEs players where workers are low-income earners. The incentives applied can be determined considering relevant standards because their capacity is limited, both in terms of revenue and technology (Amin Purnawan, 2019).

#### 2.1.1.6. Income Tax

Income tax is the mandatory amount of money imposed on an income received or earned (Budiyono & Serly Andini Restu Putri, 2021). This revenue is a source of development finance,

affected by interior variables and external factors, such as the macroeconomic variables contained in this study in the form of inflation, rupiah exchange rate, and economic growth (Neng Ratih Srimulyani, Ega Furgawati, Zulfaa Aprillianti Haura, Afmi Septiyanti, Anissa Nur Insani, Suryana, 2022).

Corporate Income Tax under Law Number 36 of 2008 is imposed on domestic business entities domiciled in Indonesia. According to Block (2022), corporate income tax is a mandatory fee paid on corporate income in line with Law on General Tax Provisions No. 16 of 2009. The tax is of major concern for entrepreneurs who incorporate their business, thereby creating a legal entity for their entrepreneurship activities. It is paid by domestic taxpayers, those entities domiciled in Indonesia, and overseas corporate taxpayers, who are those not established in the country but carry out businesses through a permanent establishment (Widjaja, 2021).

#### 2.1.1.7. Tax Incentives

Tax incentives are provided to taxpayers as obligations that affect the decrease in the amount paid to the state. Tax relaxation is expected to increase the number of business sectors, especially MSMEs, assisted by the government. This policy is one of the tax relaxation forms with ease of submitting the incentive proposal, fast utilization process, and extension ability. It is a reflection of National Economic Recovery. Andrew, R., and D.P.Sari (2021) confirmed that the tax incentive socialization of MFR 86/2020 affected compliance. Munandar and Hamdalah (2020) stated that the tax relaxation term only referred to its incentive. Although this process has been effective in Indonesia, it still requires other supporting steps to increase the country's economic resilience.

There are generally four types of tax incentives:

- Exemptions from taxation
- Reduction of the tax base
- Tax rate reduction
- Tax deferral

Income Tax Incentive Article 21 is an exemption from Article 21 Income Tax for employees of companies included in the business field classification code as stated in the Minister of Finance Regulation No. 44/2020 (Tiolina Evi, 2021). The policy for providing Government-borne Income Tax Article 21 incentives is limited to certain sectors or business categories. These include the Regulation of the Minister of Finance Number 44 / PMK.03 / 2020 concerning Tax Incentives for Obligators Taxes Affected by the Covid-19 Pandemic. These business categories are as follows:

- Certain sector categories (1,062 KLU)
- WP KITE
- Bonded Zone WP

### **3. Research Methodology**

The objective of this study is to identify the effects of tax incentives on the growth of MSMEs in Indonesia. The data analysis was conducted using SPSS with the software for windows (Haque, Rahman, & Rahman, 2010). According to Moleong (2009), this method produces descriptive data in the form of written or spoken words from people and observed behavior. The phenomenon is the decline in Final PPh 0.5% and the entrepreneurial interest of MSMEs in Banyumas Regency.

In-depth interviews were conducted by distributing flexible open questions using the snowball and

purposive sampling methods to obtain more detailed information from the respondents. The criteria for respondents are MSMEs players in Banyumas Regency who already have a TIN. The data collected were analyzed using the interactive model of Miles and Huberman (Sugiyono, 2012), which consisted of 4 stages, namely: data collection, reduction, presentation, and conclusion verification. Figure 1 shows the Research design.

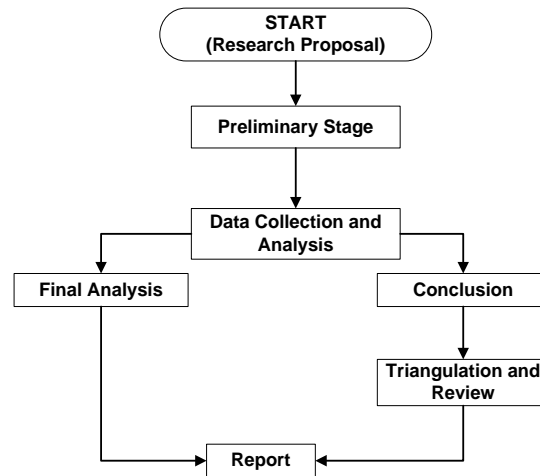


Figure 1. The Research Design

## 4. Results

4.1. *The descriptive statistic using SPSS was used to determine the mean, minimum, maximum, and standard deviation. The results are as follows:*

For Q1, most respondents agree to register themselves to get a TIN with a standard deviation of 0.81, which means it is at a medium level close to central data. For Q2, the respondents agreed to always fill out their tax returns in accordance with the provisions of the legislation in Q2. A standard deviation of 0.88 was obtained in Q12, because most respondents agreed to lower the tax rate and pay less, at a medium level close to central data. Most respondents agreed that E-filing makes it easier for them to fill out and report their SPT in Q19, while E-billing and E-invoice make it easier to manage invoices. Most respondents agreed that they understand there is a time limit for taxpayers who want to take advantage of the 0.5% final income rate.

The respondents also agreed that reducing final income tax helps decrease expenses in Q25. A standard deviation of 1.03 was obtained in Q27 because most respondents agreed micro and small business loans of up to IDR 500 million are still lacking. Most respondents agree that the provision of interest subsidies for medium-sized business loans of 3% for the first 3 months and 2% for second 3 months is appropriate in Q30. In Q31, most respondents agreed that the incentives fund for economic recovery is the right target and properly used. The results showed a standard deviation of 0.94 hence it is at a medium level close to central data. close to central data.

## 5. Discussion

### *5.1. Respondents Overview*

Primary data were obtained directly from 270 MSMEs players by filling out a questionnaire with closed and open questions divided into several parts. The average age of the respondents is 30 years, with various types of businesses.

### *5.2. Discussion*

The responses (on percentage) to the closed questionnaire regarding the effect of tax incentives for MSMEs in dealing with the pandemic are divided into five parts, which are as follows:

In part I, the questions refer to taxpayers' perceptions and compliance. The pie chart in Figure X shows that most respondents were compliant by registering to obtain an NPWP, filling out an SPT according to the applicable laws, and submitting it promptly. In addition, most of the respondents were already aware of the obligation to pay taxes and fulfill tax-related deficiencies before the auditing process.

In Part II, the questions focus on the reduction of the tax rate for MSMEs to 0.5%. It was observed more than 50% of respondents stated that the policy of reducing tax rates encouraged them to make payments because it did not affect their businesses. Additionally, the latest MSMEs tax rate is considered very efficient because it is beneficial. Currently, online services have penetrated the world of taxation by creating E-filing, E-invoicing, and E-billing, thereby making it easier for people to pay taxes. More than 60% of respondents acknowledged the benefits of this service which has also led to an increase in public obedience in managing taxation.

Research examined the tax incentive policies issued by the government during the pandemic. This incentive is issued to help communities restore their economy. More than 50% of respondents agreed with the question regarding the correct target of economic recovery. The pie chart shows that most respondents already know the tax incentives from the government.

### *5.3. Open Question*

In the open questionnaire, there are several questions regarding tax incentives that need to be answered by the respondents. The results show that most respondents agree with the existence of tax incentives during the pandemic because this can help their finances at this critical time. However, incentive funds for economic recovery still need to be increased to make it more transparent and on target.

## **6. Conclusion**

Based on the analysis results described previously, the following conclusions were drawn:

- The public has the awareness to comply with tax regulations, with the majority already calculating the taxes that must be paid in accordance with the applicable laws and regulations. Additionally, respondents are also aware of the obligation to pay tax deficiencies and submit returns promptly
- The decrease in the tax rate of MSMEs to 0,5 % is one of the government policies to help minimize the burden on society due to the pandemic, especially for MSMEs. This tax incentive policy is considered efficient and does not burden the players but helped respondents to continue their business during the pandemic. Respondents think that the target of economic recovery is right, which helps them make a suitable business strategy.

- Online-based tax services assist communities in terms of time and ease of paying taxes. In addition, it enables public obedience in managing taxation.

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