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Research Article

Can Tax Incentives Affect MSME Tax Compliance?

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ABSTRACT

The government issued a tax incentive policy for the business sector. This policy was taken to help the public and business actors to survive in the middle period of the Covid-19 outbreak. The Covid-19 pandemic has influenced the relationship between tax incentives and MSME tax compliance. This study examines how much influence tax incentives have on MSME tax compliance. MSME actors get a total income tax incentive of 0.5% as referred to PP No. 23/2018 which is created by the government, where the taxpayers of MSME do not require to make tax deposits. During the Covid-19 pandemic, the government provided tax incentives that are expected to boost MSME tax compliance. The main objective of this study was to examine the impact of tax incentives on MSME tax compliance, using the Covid-19 situation as a moderating factor. The tax incentives in this study consist of knowledge of tax incentives and the use of tax incentives. The research data was obtained from UMKM in Kudus Regency with a sampling technique using purposive sampling. Data were collected from 231 respondents using a survey method. The data was analyzed using moderated regression analysis. The study's findings indicate that knowledge of tax incentives has a positive effect on MSME tax compliance, that use of tax incentives has no impact on MSME tax compliance, and that the Covid-19 pandemic has no influence on the relationship between knowledge of tax incentives and use of tax incentives on MSME tax compliance. The expected implication in this research is to be able to contribute to providing information about the compliance level of MSME taxpayers during the Covid-19 pandemic and to be used as evaluation material for the application of related policies.

Keywords: *Compliance, Covid-19, Incentives*

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Introduction

The Ministry of Finance in Indonesia has issued PMK No. 23/PMK.03/2020 for Taxpayers Affected by the pandemic of COVID-19. The provision of tax incentives is a response from the government to the declining productivity of taxpayers due to Covid-19. Covid-19 itself has been declared by the government as a non-natural disaster that affects economic stability and also state revenues.

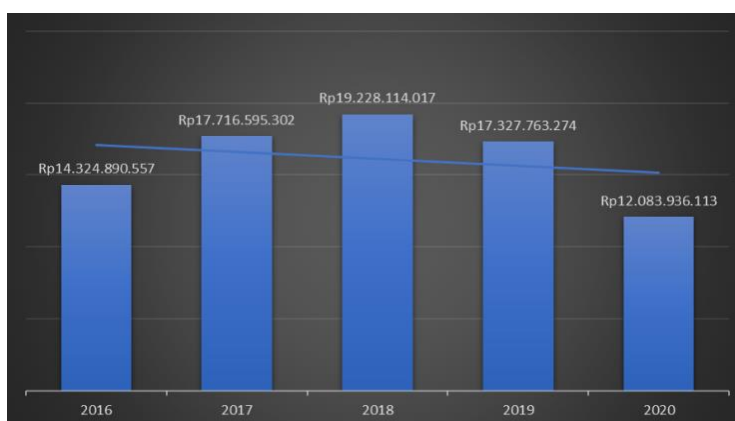
The application of tax incentives to taxpayers starts from April 2020. The application of tax incentives does not apply equally to all types of taxes, which are adjusted to the concept of application of each tax. Not all types of Income Tax (PPH) and Value Added Tax (PPN) get tax incentives and not all taxpayers get tax incentives based on PMK No. 23/PMK.03/2020.

The government through the Directorate General of Taxes at the Ministry of Finance has officially extended the tax incentive policy until the end of December 2021. The policy is stated in PMK No. 82/PMK.03/2021 regarding amendments to PMK No. 9/PMK.03/2021 for Taxpayers Affected by the pandemic of COVID-19. This PMK stipulates that there are six tax incentives that can be utilized by the public until the end of 2021. One of them is the tax incentive

for Micro, Small and Medium Enterprises (MSME) or final pph developed by the government in charge. MSME taxpayers are exempt from paying taxes, and parties who transact with MSMEs are exempt from collecting taxes as well. MSME actors who want to take advantage of tax incentives do not need to submit a certificate as required by the regulations, but instead must submit a monthly realization report.

The Indonesian economy is still struggling amidst the Covid-19 pandemic. The sector most affected by this situation is MSMEs. According to a survey by the Asian Development Bank (ADB) as of September 16, 2020, 48.6% of MSMEs in Indonesia were temporarily closed due to the pandemic. The decline in domestic demand by 30.5% is suspected to be the cause of this. MSMEs also face other challenges, namely the difficulty of obtaining raw materials and obstruction of distribution. This is due to policies that restrict the movement of people and goods. With a total budget of Rp. 114.81 trillion, the government is committed to assisting MSMEs through the National Economic Recovery (PEN) program in 2020. The government allocates Rp 1.08 trillion from this budget for MSME tax incentives.

Table 1. Tax Revenue from MSME Taxpayers in Kudus Regency 2016-2020



Source: KPP Pratama Kudus (2021)

Devos & Zackrisson (2015) state that taxpayer compliance can be said as compliance with tax reporting requirements where taxpayers file and report obligations according to applicable regulations. Internal and external

factors both influence taxpayer compliance. Internal factors are factors that originate within the taxpayers themselves and are related to individual characteristics that serve as triggers for the taxpayers' compliance with their tax

obligations. External factors are those that come from outside the taxpayer, such as the taxpayer's situation and surroundings.

According to the evaluation of the KPP Pratama Kudus from the implementation in 2020, the realization of the use of this tax incentive has only reached 827 MSMEs that have utilized this facility or 11.16%. This means that there are still many MSME taxpayers who have not enjoyed the tax incentive facilities borne by the government. The Covid-19 pandemic has played a role in moderating the relationship between tax incentives and MSME tax compliance. This study wants to test how much influence tax incentives have on MSME tax compliance. According to PP No. 23/2018, MSME actors receive a 0.5 percent final income tax incentive, and MSME taxpayers are exempt from making tax deposits. The tax incentives provided by the government during the Covid-19 pandemic are expected to increase the level of MSME tax compliance. The objective of this study was to study the effect of tax incentives on MSME tax compliance, using the Covid-19 public health crisis as a moderating factor. In this study, tax incentives are comprised of tax incentive knowledge and tax incentive use.

Literature Review

Attribution Theory

Attribution theory is a theory that tries to find out what causes what, or what drives who does what (Heider, 1958). Attribution theory is used to discuss the efforts made to find out the causes of a person's behavior. Formal attribution is an effort made to understand the causes behind other people's behavior as well as one's own behavior.

According to attribution theory, when people observe the behavior of others around them, they try to determine whether it is caused internally or externally. Internally caused behavior is pattern of behaviour that is believed to be under the personal control of the individual himself in a conscious state, such as personal characteristics, perception, and abilities, whereas externally caused behavior is behavior that is influenced from outside, which means that the individual will be forced to think and act because of the situation, such as the social influence of other people.

The Effect of Knowledge of Tax Incentives on MSME Tax Compliance

Knowledge of tax incentives is a process where taxpayers know and understand about tax incentive policies, then apply that knowledge and understanding to take advantage of these incentives. Taxpayers must understand and understand what are the benefits of tax incentive policies, with understanding and knowledge of tax incentives owned by taxpayers will be very useful for state tax revenues during the Covid-19 pandemic.

Knowledge of tax incentives is one of the factors that can affect MSME tax compliance because if taxpayers know and are able to understand tax incentive policies, they will create and be willing to enjoy tax incentives borne by the government. The greater taxpayer awareness of the tax incentive policy, the greater taxpayer compliance, because the tax incentives will be very beneficial for MSME actors, particularly businesses impacted by the Covid-19 disease outbreak.

Because MSME taxpayers do not need to deposit taxes owed, they only need to submit a realization report every month, the tax incentives provided by the government are convenient for MSME actors. This will increase the awareness of taxpayers in paying off their tax obligations. Attribution theory is very relevant to knowledge of tax incentives because knowledge of tax incentives is an internal cause that can affect the perception of taxpayers in fulfilling their tax obligations. According to the findings of research conducted by Kumala and Junaidi (2020) and Ariyanto et al. (2020), tax compliance could be affected by tax knowledge. However, several previous studies have shown inconsistent results, namely based on research by Markhumah (2019) which showed that tax knowledge had no effect on tax compliance.

H1: Knowledge of tax incentives has a positive effect on MSME tax compliance

The Effect of Tax Incentive Utilization on MSME Tax Compliance

Tax incentives are effective impacts on reducing the tax burden borne by taxpayers. The existence of a MSME tax incentive policy is an opportunity for the government to create newer MSME taxpayers (tax potential) which

will encourage an increase in tax revenue. The tax incentives contained in PMK No. 82/PMK.03/2021 regarding amendments to PMK No. 9/PMK.03/2021 relating Tax Incentives for Taxpayers Impacted by the 2019 Corona Virus Disease outbreak are highly anticipated to be used by MSME actors. The provision of tax incentives by the government will affect the income received by MSMEs during the Covid-19 pandemic. This helps to ease the burden of MSME actors on their tax obligations.

Attribution theory is able to explain the use of tax incentives. This is because the use of tax incentives is an external cause that can affect the perception of taxpayers in fulfilling their tax obligations. This statement is reinforced by the results of research conducted by Daniel & Faustin (2019) and Latief, et al (2020) which show that the use of tax incentives has a positive effect on increasing taxpayer compliance. However, the research of Munongo, et al. (2017) show that tax incentives reduce tax compliance. In fact, Makeeva & Mikhaleva (2019) shows that tax incentives have no effect on tax compliance.

H2: The use of tax incentives has a positive effect on MSME tax compliance

The Covid-19 Pandemic Moderates Knowledge of Tax Incentives and MSME Tax Compliance

MSMEs are the regional and national economies' lifeblood. The Covid-19 pandemic has had economic, social, and political consequences in nearly every country, including Indonesia. The MSME sector has also felt the financial impact of the Covid-19 pandemic. The implications of this pandemic include: the average decrease in sales and profits of MSMEs, the number of MSMEs experiencing capital problems increases, and MSMEs reduce the number of employees. This needs to be taken quickly by the government so that the Covid-19 pandemic does not disrupt the MSME economy. One way for MSMEs to survive is tax incentives for MSMEs.

DGT continues to socialize on tax incentives, such as: making quality materials so as to increase taxpayers' interest in taking advantage of the tax incentive facilities offered and making webinars with MSME participants and the general public to present information

on tax incentives. Almost all MSME actors (particularly micro-enterprises) face difficulties in meeting their tax obligations. The socialization is expected to increase taxpayers' knowledge of tax incentives, allowing MSMEs to take advantage of these tax incentives, and MSMEs' tax compliance to rise as a result of the tax incentive policy enacted in response to the Covid-19 pandemic.

Based on the attribution theory that knowledge of tax incentives is an internal factor that comes from within or within the taxpayer environment. MSME actors who receive incentives will think that it is better to take advantage of the opportunity to get incentives from the government by knowing and implementing the procedures for obtaining these incentives. With knowledge about tax incentives, MSME actors will benefit from these incentives in the form of a tax burden owed by the government during the Covid-19 pandemic, allowing MSMEs to continue operating without worrying about the tax burden they owe. The Covid-19 pandemic greatly affects MSME tax compliance, although taxpayers fully understand tax regulations, the Covid-19 pandemic can cause taxpayers to not comply with their obligations in paying taxes.

H3: The Covid-19 pandemic strengthens knowledge of tax incentives on MSME tax compliance

The Covid-19 Pandemic Moderates the Utilization of Tax Incentives and MSME Tax Compliance

The Covid-19 pandemic is predicted to boost MSME tax compliance across tax incentive policies for Covid-19 pandemic taxpayers. The government guarantees easy access for MSME actors to get tax incentives and local tax relief. This is part of the government's efforts to encourage the transformation of MSMEs in Indonesia. This form of transformation includes the transition of business activities from the informal sector to the formal sector.

DGT revealed that the number of MSMEs in Indonesia currently reaches 65 million. However, only 15% or 9.8 million MSMEs who take advantage of the final income tax (PPh) borne by the government are only 15% or 9.8 million MSMEs. There are still many MSMEs that have

not taken advantage of this tax incentive or relief (www.pajakonline.com, 2021). Based on the attribution theory, the use of tax incentives is an external factor that comes from outside the taxpayer environment. The use of tax incentives is useful to support taxpayer compliance in complying with tax regulations. Taxpayer compliance is one of the important

factors to realize the target of tax revenue. The faster the growth of MSMEs in Indonesia, the greater the tax compliance of MSMEs so that the greater the tax revenue in the MSME sector. However, compliance with paying taxes is even more crucial in the midst of the large funding needs from the government during the Covid-19 pandemic.

H4: The Covid-19 pandemic strengthens the use of tax incentives for MSME tax compliance

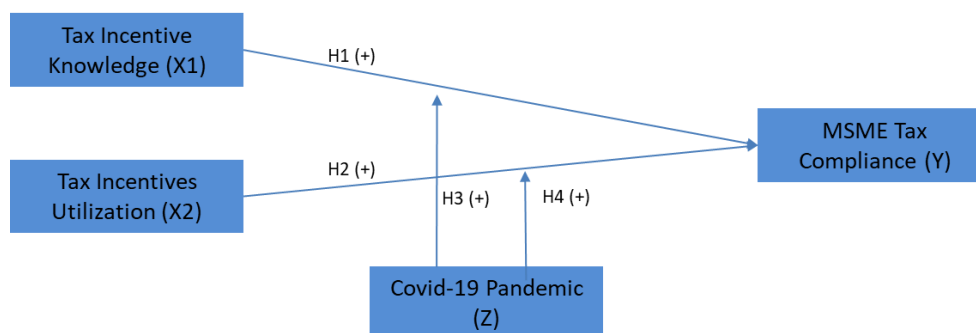


Figure 1. Thinking Framework

Methods

The population in this study is MSME taxpayers with purposive sampling technique. The research sample totaled 231 respondents with criteria, namely: individual MSME taxpayers who were registered at the KPP Pratama Kudus and had used tax incentives during the Covid-19 pandemic. The primary data was taken from a questionnaire developed by the researcher himself and has been tested for validity and reliability. Questionnaires were distributed via google form from June-July 2021. This study distributed 300 questionnaires via google form with 231 questionnaires returned and could be processed. Respondents who filled in the most were 157 respondents with male gender, age of respondents 31-40 years, and type of trading business.

The analysis tool uses Moderated Regression Analysis (MRA) with the following research model:

$$Y = a + b1X1 + b2X2 + b3X1Z + b4X2Z + e$$

Information:

- Y = MSME tax compliance
- a = Constant
- b1-b4 = Regression coefficient
- X1 = Tax incentives knowledge
- X2 = Tax incentives utilization
- Z = Covid-19 Pandemic
- e = Standard error

Results and Discussion

Coefficient of Determination Test (R2)

In a regression model, the coefficient of determination used to assess the model's ability to explain the variance of the dependent variable. A small R2 value (≤ 0) indicates that the independent variable's ability to explain the dependent variable is limited, whereas a large R2 value (≥ 0) indicates that the independent variable can provide the data required to forecast the dependent variable.

Table 2. Results of the Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.676 ^a	.457	.403	1.565

Source: Processed data (2021)

Adjusted R Square is used to determine whether the model is good or bad, where the value continues to increase with the addition of independent variables to the regression model variables. The influence of the independent variable on the dependent variable with an adjusted R square of 0.403 means that MSME tax compliance is explained by the knowledge and utilization of tax incentives by 40.3% while the remaining 59.7% on MSME tax compliance is affected by other variables outside the model.

F Test

The F test determines whether all the independent variables have an effect on dependent variables at the same time. The probability value can be used to take actions in this test (p-value). If sig 0.05, then the independent variable affects the dependent variable at the same time.

Table 3. F Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	185.674	5	20.630	8.427	.000 ^b
	Residual	220.326	225	2.448		
	Total	406.000	230			

Source: Processed data (2021)

According to the F test results, the significant value is $0.000 < 0.05$, implying that the results of this test obtained from the independent variables (knowledge and use of tax incentives) have a positive impact on MSME tax compliance.

t Test

The t test is used to determine how much influence each independent variable has on the dependent variable. If the significance value is < 0.05 , it implies that the model on the dependent variable has a partial effect, and vice versa.

Table 4. t test results

Model		Coefficients ^a				t	Sig.
		Unstandardized Coefficients		Standardized Coefficients			
		B	Std. Error	Beta			
1	(Constant)	23.323	16.074			1.451	.150
	X1	1.452	.634	2.221		2.290	.240
	X2	-.040	.869	-.043		-.046	.963
	X1Z	-.055	.027	-2.852		-2.029	.055
	X2Z	.141	.045	4.395		3.105	.063

Source: Processed data (2021)

Knowledge of Tax Incentives and MSME Tax Compliance

Based on table 4, knowledge of tax incentives has a significance value of $0.024 < 0.05$. This means that knowledge of tax incentives has a positive effect on MSME tax compliance and H1 is accepted. Attribution theory is able to explain the relationship between knowledge of tax incentives and MSME tax compliance. The findings in this study indicate that the higher the knowledge of MSME actors, the higher the level of tax compliance. This is because

taxpayers already understand in detail about tax incentives through socialization or webinars conducted by the DGT and apply this knowledge by utilizing tax incentives. When someone is given enough information about taxation, that person will understand and behave properly (Handayani & Damayanti, 2018). The findings of this study are consistent with the findings of a study conducted by Kumala and Juanidi (2020), which found that tax knowledge has a significant impact on tax compliance.

Utilization of Tax Incentives and MSME Tax Compliance

The results of testing the second hypothesis, namely the use of tax incentives have no effect on MSME tax compliance. This is evidenced by a significance value of $0.963 > 0.05$ which means that the use of tax incentives has no significant effect on MSME tax compliance and H2 is rejected. The higher the incentives provided by the government that can be utilized by MSME actors, it will not affect MSME tax compliance in paying taxes.

Attribution theory fails to explain the relationship between the use of tax incentives and MSME tax compliance. According to attribution theory, the use of tax incentives is an external cause that can affect the perception of taxpayers in fulfilling their tax obligations. MSME actors feel that the use of tax incentives is very important because they feel that the taxes paid will be borne by the government and reduce the tax burden every month.

The results of this study contradict the research conducted by Latief, et al. (2020) which states that the use of tax incentives has a positive effect on MSME tax compliance which concludes that if the tax incentives provided by the government can provide motivation and state awareness of taxpayers towards their compliance in fulfilling tax obligations.

The Covid-19 Pandemic Moderates Knowledge of Tax Incentives and MSME Tax Compliance

Based on table 4, the results of testing the third hypothesis, namely the Covid-19 pandemic was unable to moderate the relationship between tax knowledge and MSME tax compliance. This is evidenced by a significance value of $0.055 > 0.05$ so that H3 is rejected. This is because the Covid-19 pandemic cannot be known with certainty when it will end, so it does not affect MSME tax compliance. The effect of the Covid-19 pandemic on the relationship between tax knowledge and MSME tax compliance could not be explained by attribution theory.

Socialization of tax incentives was able to have a positive impact on MSME tax compliance. MSMEs feel they can survive in their busi-

ness because they are helped by the tax incentive policy during the Covid-19 pandemic. In the end, MSME actors will continue to comply with their tax obligations after the Covid-19 pandemic ends.

The Covid-19 Pandemic Moderates the Utilization of Tax Incentives and MSME Tax Compliance

The results of testing the fourth hypothesis, namely the Covid-19 pandemic was unable to moderate the relationship between the use of tax incentives and MSME tax compliance. This is evidenced by a significance value of $0.063 > 0.05$ so it can be concluded that H4 is rejected. The use of high tax incentives during the Covid-19 pandemic did not make MSME taxpayers comply with taxes. Taxpayers feel that the use of these incentives needs to be followed up by participating in applying for tax incentives which will later be able to improve their tax compliance.

The effect of the Covid-19 pandemic on the relationship between the use of tax incentives and MSME tax compliance also could not be explained by attribution theory. The presence or absence of the Covid-19 pandemic can actually improve MSME tax compliance through tax incentive policies for taxpayers affected by the Covid-19 pandemic.

Conclusion

The results of the study conclude that knowledge of tax incentives has a positive effect on MSME tax compliance, the use of tax incentives has no impact on MSME tax compliance, while the Covid-19 pandemic has no impact on the relationships between tax incentive and tax knowledge that used on MSME tax compliance. One limitation of this study is the lack of knowledge about the impact of tax incentives on tax compliance during the Covid-19 pandemic. To the researcher's knowledge, this study is the first study to use the Covid-19 pandemic as a moderating variable in the relationship between tax incentives and tax compliance.

Future research is expected to be able to add corporate taxpayers to the research subjects and add independent variables, such as

the risk of tax incentives. The expected implication in this research is to be able to contribute to providing information about the level of compliance of MSME taxpayers during the Covid-19 pandemic, as well as to be used as evaluation material for the implementation of tax incentive policies.

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