

The Level of Voluntary Compliance of Income Tax Payments in Micro Small and Medium Enterprises (MSMEs) in Surakarta City, Central Java

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Abstract

The large number of MSMEs in Indonesia has not yet been comparable with tax revenues from MSMEs. Medium and large businesses are still the biggest tax contributors. Compliance of taxpayers arises by several factors that can influence it, including understanding tax regulations, tax rates, sanctions and fairness in determining the subject and object of the tax. This study further aims to explore the extent of MSME compliance in meeting income tax obligations and what factors affect tax compliance. This research was conducted as a case study at MSMEs in Surakarta City, Central Java, which has unique community characteristics. The results showed that the level of compliance of Surakarta City's MSMEs to fulfill the obligation to pay income tax was still low. Factors that influence compliance of Surakarta MSMEs to pay income tax is largely due to the fact that Surakarta City MSMEs do not understand the government provisions regarding income tax obligations, MSME financial capacities are still small, and they do not feel the benefits of tax payments to support the progress of their businesses.

Keywords: *Voluntary compliance, Income Tax, MSMEs.*

INTRODUCTION

The Ministry of Cooperatives and Small and Medium Enterprises recorded that the number of Indonesian Micro and Small Business Entrepreneurs reached almost 60 million business operators in 2017 spread throughout Indonesia. MSMEs also dominate the existing business structure in Indonesia around 99.99%, consisting of 98.79% micro businesses, small businesses at 1.11%, medium businesses at 0.09%. Meanwhile, big businesses only contribute to the business structure in Indonesia by 0.01% (Endrianto, 2015).

The large number of MSME actors was not yet comparable with tax revenues from MSMEs. Medium and large businesses are still the biggest tax contributors in Indonesia. Wendy (2015) mentions some of the reasons for this is the fact that the Directorate General of Taxes is more focused on large taxpayers while supervision of MSME actors has not been optimally carried out and tax compliance of MSME actors is still low.

Compliance taxpayers arise by several factors that can influence it. Simanjuntak & Mukhlis (2012) argued that several factors included understanding taxation regulations, tax rates, sanctions and justice.

Research conducted by Ningtyas (2012) shows that tax rates have a significant effect on taxpayer compliance. Thus the taxpayer compliance can also be achieved if there is a clear tariff determination, besides the tax rate must also be fair in determining the subject and object of the tax.

Regarding the MSME tax rate, the Government has made several policies to encourage tax revenue. Initially there were already tax provisions that governed special PPh rates for MSMEs but only applied to those in the form of business entities. In Law No.36 Year 2008 (Income Tax Law) article 31 E, it is stated that domestic corporate taxpayers with a gross circulation of up to Rp50 billion receive facilities in the form of a tariff reduction of 50%. With the current corporate income tax rate of 25%, for domestic corporate taxpayers who meet the requirements, the effective rate will be 12.5% of income up to Rp. 4.8 billion.

Imposition of Income Tax in this case is carried out on taxable income calculated from the calculation of accounting income (bookkeeping) after a fiscal correction, because based on article 28 paragraph (1) of Law Number 28 Year 2007 (KUP Law), corporate taxpayers are required keep bookkeeping.

The obligation to keep books is certainly an obstacle for most MSMEs. Muchid (2015) mentioned the constraints to the development of MSMEs in addition to lack of education and lack of understanding of information technology, as well as obstacles in the preparation of financial statements.

In 2013, the Government also made a tax policy, namely Government Regulation (PP) No. 46 of 2013 which was implemented starting July 1, 2013. This PP provides a tax rate of 1% of the taxpayer's turnover that does not exceed 4.8

billion in one tax year. This PP is made by the government so that taxpayers become more obedient, then they are encouraged to carry out tax obligations so that tax revenue targets can be achieved. But the realization, after receiving a 1% tax rate from turnover has not reached the target, as stated by Mustofa et al. (2016).

In June 2018, the Government launched a new policy on taxation of MSMEs as stipulated in PP No. 23 of 2018. The tax rate applicable to MSMEs in the PP was 0.5% and entered into force as of 1 July 2018. This policy was aimed at stimulating business MSMEs, encouraging community participation and taxation knowledge.

Surakarta City is a region in Central Java Province, based on data from the Central Statistics Agency (BPS) in 2018 showing that the potential number of MSMEs in Surakarta City is 43,700 MSMEs. According to the Head of the Surakarta Cooperative and UMKM Office Nur Haryani, the number of MSMEs fostered by the Surakarta Cooperative and UMKM Office is 3,200 MSMEs specifically in the productive sector, with an increase of around 10% every year. Especially for the productive sector, not all can be fostered due to budget constraints.

Problems that arise and need to get a solution are (1) What is the level of voluntary compliance of MSMEs in Surakarta in paying income tax (2) What factors affect MSMEs voluntary compliance to pay income tax.

Considering the importance of this MSMEs, this paper tries to analyze the level of voluntary compliance of MSMEs to pay income tax. Such goals are certainly very general and tend to be normative in laws and regulations, so this study takes a case study of the efforts made by MSMEs to enable paying income tax obligations. This case study is the originality of this paper, while at the same time expanding the true meaning of normative legal rules in real life. Here, there are at least two new things in this research, namely case studies for empirical testing of constitutional regulations, and trying to reduce normative law to more empirical conditions by looking at the factors that affect tax compliance.

LITERATURE REVIEW

Taxes are mandatory contributions to the state owed by individuals or entities that are coercive based on the Act, with no direct compensation and are used for the country's needs for the greatest prosperity of the people (Law No.28 of 2007 article 1). Taxes are also interpreted as people's contributions to the state treasury based on the law (which can be forced) by not getting reciprocal services (contra-achievement) that can be directly shown and used for public purposes (Mardiasmo, 2009).

Taxpayer compliance is the extent to which taxpayers can carry out their tax obligations properly and correctly according to tax regulations (Mustofa et al., 2016). In accordance with PMK Number 192/PMK.03/2007 Article 1, taxpayers who can be determined as compliant taxpayers can be given a preliminary refund of the overpayment of tax if they meet all the following conditions:

- a. Timely submitting Notification Letter;
- b. Do not have tax arrears for all types of taxes, except tax arrears that have obtained permission to pay in installments or delay tax payments;
- c. The financial statements are audited by a public accountant or government financial watchdog with an unqualified opinion for 3 consecutive years; and
- d. Never been convicted of a criminal offense in the field of taxation based on a court decision that has had permanent legal force for the past 5 years.

In accordance with Law Number 20 Year 2008 concerning Micro, Small and Medium Enterprises (MSMEs), the understanding of Micro, Small and Medium Enterprises is as follows:

- a. Micro Business is a productive business owned by individuals and / or an individual business entity that meets the criteria for Micro Business as stipulated in the Act.
- b. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or non-branch companies that are owned, controlled, or become either directly or indirectly a part of a medium-sized business or large business that meets the Business criteria Small as referred to in the Act.
- c. Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly with a Small Business or large business with a net worth or annual sales results as stipulated in the Act. The criteria for micro, small and medium enterprises are as follows:

Criteria for MSMEs are based on assets and turnover per year, that Micro Enterprises are businesses that have a maximum asset of IDR 50,000,000.00 and a maximum turnover of IDR 300,000,000.00. Small Businesses have assets of more than Rp. 50,000,000.00 up to Rp. 500,000,000.00 and turnover of more than Rp. 300,000,000.00 up to Rp. 2,500,000,000.00. While Medium Enterprises have assets of more than Rp. 500,000,000.00 up to Rp10,000,000,000.00

and turnover of more than Rp. 2,500,000,000.00 up to Rp. 50,000,000,000.00.

Government Regulation Number 23 of 2018 is a regulation concerning income or income from businesses obtained by taxpayers who have a certain gross circulation within one tax year. This PP takes effect on July 1, 2018. The new income tax rate for MSMEs is 0.5% of the turnover. The regulation replaces the previous regulation, namely PP No. 46 of 2013 with a MSME final PPh rate of 1 percent calculated based on gross income (turnover) for SMEs with a turnover of less than Rp. 4.8 billion in a year.

The time limits of this established tax incentive policy differ for various tax subjects. First, for individual tax subjects, the incentive has a term of 7 years. Second, for the tax subject of a business entity in the form of a Limited Liability Company, the incentive has a term of 3 years. Finally, for the tax subject of business entities in the form of CV, firm, and cooperative for 4 years. The time period is calculated since the tax year the regulation applies to the old taxpayer (WP), and since the tax year is registered for the new WP.

Income tax policy for MSME actors is one of the fiscal facilities provided by the government to MSME actors to encourage the potential/activities of the MSME sector but will also reduce the potential for short-term tax revenue. The imposition of a final final tax rate for MSMEs of 1 percent is considered burdensome for MSMEs and is often complained of by MSMEs. The UMKM tax incentive policy provides tax relief for SMEs with a tax rebate of 0.5%. From the business side's point of view, the reduction in new tariffs is expected to stimulate the emergence of new MSMEs to develop and provide financial space (business opportunities) by reducing the burden of MSME costs to be used in business expansion (Rafika Sari, 2018)

METHOD

This research uses a qualitative approach. Qualitative research is a research method based on the philosophy of post-positivism, used to examine the natural conditions of objects with researchers as key instruments, data collection techniques are carried out triangulated, data analysis is inductive, and qualitative research results emphasize meaning rather than generalization (Sunggono, 2006).

Respondents in this study are MSMEs in the Surakarta region, Central Java, who have different business fields. Samples taken as many as 50 MSMEs with random sampling technique. In this study, researchers conducted in-depth interviews related to the respondents to get the data needed in the study.

Testing the validity of the data in this study was done through extended observations, increased perseverance in research, triangulation, discussions with colleagues, negative case analysis and member checking. The data analysis technique used is qualitative analysis. The steps in qualitative data analysis through four processes, namely collecting data, sorting out unneeded data, presenting and analyzing data, and finally, concluding the data.

RESULTS AND DISCUSSION

Voluntary Compliance Level Surakarta UMKM Pay Income Tax

Seen from 50 (fifty) MSMEs in Surakarta studied, it is known that 34% of Surakarta MSMEs understand the income tax payment obligations, and 66% of Surakarta MSMEs do not understand the income tax payment obligations because they have never received information/counseling. From the description above it is known that the understanding of Surakarta's MSMEs regarding income tax payment obligations is only 34%.

Furthermore, from the results of a study of 50 Surakarta City MSME samples, it is known that, 44% have been registered as taxable entrepreneurs, and 56% have not been registered as taxable entrepreneurs. Surakarta City's UMKM that has been registered as a Taxable Entrepreneur is a UMKM that is compliant with fulfilling its PKP registration obligations. From the description above, it is known that Surakarta City MSMEs that comply with the registration requirements as a Taxable Entrepreneur are 44%, while the remaining 56% have not complied with these obligations.

Observing the results of the research shown above, compliance from Surakarta MSMEs to pay taxes is still relatively low or questionable. This weakness of compliance requires continuous supervision so that compliance among these groups continues to run well. If supervision is loose, it is likely that this group will not carry out these obligations properly.

Factors Influencing Compliance in Paying Income Taxes by MSMEs

Based on the results of interviews with 50 Surakarta MSME respondents, it can be seen several factors that influence compliance with paying income tax by MSMEs in Surakarta, including:

1. Understanding of regulations is still low due to lack of tax information dissemination / education / education.
2. Payment of taxes will increase the burden of costs and reduce MSME revenues
3. MSME's financial capacity is still small.
4. Not feeling the benefits of tax payments
5. Lack of guidance and assistance for MSMEs
6. Fear of being sanctioned by the law
7. Getting assistance in the form of training, and soft loan capital from the government
8. Transparency of tax management
9. Controlling various illegal levies
10. Easy tax payment procedures
11. Increase the awareness and compliance of MSMEs to pay taxes
12. Oversight and law enforcement

Based on the description above shows that:

1. The policy of imposing Income Tax (PPH) on UMKM generally has an influence on the progress and growth of UMKM.
2. Imposition of UMKM Income Tax (PPH) needs to be done wisely by considering aspects of ability to pay and can encourage the progress of its business, rather than the burden that hinders the growth of MSMEs.
3. Tax policies that pay attention to the interests of the business world (business friendly) need to be used as a new paradigm for taxation for MSMEs.
4. The role of the state is to provide an effective tax regulatory framework for MSMEs along with their oversight and enforcement mechanisms.
5. The government must consider the fact that MSME support or incentives and facilitation of tax revenue is urgently needed for MSME actors to grow and develop.

CONCLUSION

The level of compliance of Surakarta City's MSMEs to fulfill its registration requirements as a Taxable Entrepreneur and pay income tax is still low. The Fiskus needs to provide continuous taxation information dissemination to MSME actors, provide written appeals and/or warnings about fulfilling the obligation to register and pay income tax. Factors influencing compliance of Surakarta MSMEs to pay income tax is largely due to the fact that Surakarta City MSMEs do not understand the registration requirements regarding Taxable Entrepreneurs and the obligation to pay Income Taxes, MSME's financial capacity is still small, and they do not benefit from tax payments to support the progress of his business.

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