THE IMPACT OF TAX INCENTIVES, TAX SANCTIONS, AND SOCIALIZATION ON TAX COMPLIANCE AMONG MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMES) IN WEST JAKARTA DURING THE COVID-19 PANDEMIC

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ABSTRACT

The purpose of this study is to empirically examine the effect of tax regulation during covid19 pandemic. There are factors which have been implemented which are tax incentives, government incentives on regulation number 23 of 2018, and tax sanctions on the level of taxpayer compliance of small and medium enterprises (SME). This study uses primary data in the form of a questionnaire. The analytical method used in this study is SEM-PLS analysis with Level of Taxpayer Compliance of Small and Medium Enterprises (SME) as the dependent variable and tax incentives, socialization of government regulation number 23 of 2018, and tax sanctions as an independent variable. The results of this study showed that tax incentives, and socialization of government regulation number 23 of 2018, have no effect on the level of taxpayer compliance of small and medium (SME), while the tax sanctions variable has a positive and significant effect on the level of taxpayer compliance of small and medium (SME).

Keywords: tax incentives, socialization of government regulation number 23 of 2018, tax sanctions, tax compliance

I.   Introduction

Since the beginning of 2020, the COVID-19 pandemic has significantly impacted tax revenue in Indonesia. By the end of August 2020, tax collection had decreased by 15.6% (Ministry of Finance, 2020). The implementation of Large-Scale Social Restrictions (PSBB) by the government was one of the major factors contributing to this decline. The Micro, Small, and Medium Enterprises (MSMEs) sector was severely affected by the pandemic, as the PSBB measures limited their activities, leading to decreased production levels and reduced demand.

According to data from the Ministry of Cooperatives and SMEs of the Republic of

Indonesia, the contribution of MSMEs to the national economy is significant: they employ up to 89.2% of the total workforce, provide 99% of total employment opportunities, contribute 60.34% to the national GDP, account for 14.17% of total exports, and contribute 58.18% to total investments (Ministry of Cooperatives and SMEs, 2020).

Another factor influencing taxpayer compliance is tax sanctions. Tax sanctions are imposed on taxpayers who fail to meet their tax obligations in accordance with applicable tax laws (Imaniati, Z. Z., & Isroah, I., 2016). These sanctions serve as preventive measures to discourage taxpayers from violating tax regulations. In Indonesia, there are two types of tax sanctions: administrative sanctions, which may include fines or penalties, and criminal sanctions, which may result in imprisonment or detention (Listyaningsih, D., Nurlaela, S., & Dewi, R. R., 2019). Based on the presented conditions and problem details, the focus of this research is on the following points: (i) Does the Tax Incentive significantly influence the tax compliance of MSME taxpayers in West Jakarta? (ii) Does the socialization of Minister of Finance Regulation No. 44/PMK.03/2020 on Tax Incentives for MSME taxpayers affected by the COVID-19 pandemic significantly influence tax compliance among MSMEs in West Jakarta? (iii) Does the Tax Sanction significantly influence tax compliance among MSME taxpayers in West Jakarta?

II.   Research Method

The type of research used in this study is quantitative research, which involves distributing questionnaires and sampling 109 micro, small, and medium-sized enterprise (MSME) entrepreneurs in the West Jakarta area as the research subjects. The data collection was conducted in May-June 2021, targeting MSME entrepreneurs in West Jakarta. The profile of the

respondents studied, as MSME entrepreneurs, is as follows: aged between 20 and 60 years, both male and female, with an annual revenue below Rp. 4.8 billion, engaged in various types of businesses, and possessing a Tax Identification Number (NPWP). Data collection was performed using a questionnaire, where the researcher provided several statements aimed at reaching the desired target respondents.

Data Analysis Technique

This research employs the Structural Equation Modeling (SEM) with Partial Least Squares (PLS)
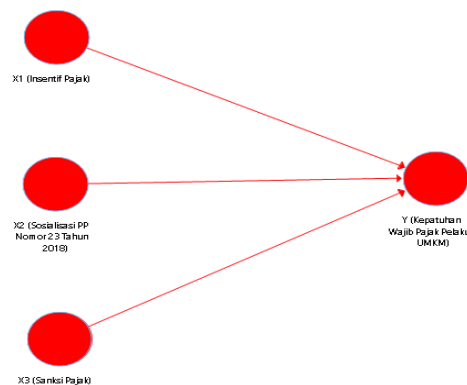

Picture 1. Structural Model

Findings and Discussions

Based on the type of business from the collected questionnaires, the respondents can be categorized as follows: 92 respondents are involved in the food or beverage business (84.4%), 10 respondents are in the fashion business (9.2%),5 respondents are engaged in agribusiness (4.6%), 2 respondents are running a photocopy business (1.8%).
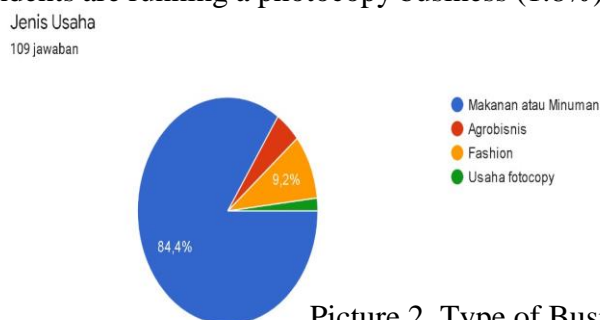

Picture 2. Type of Business

Picture 3. Diagram NPWP Ownership
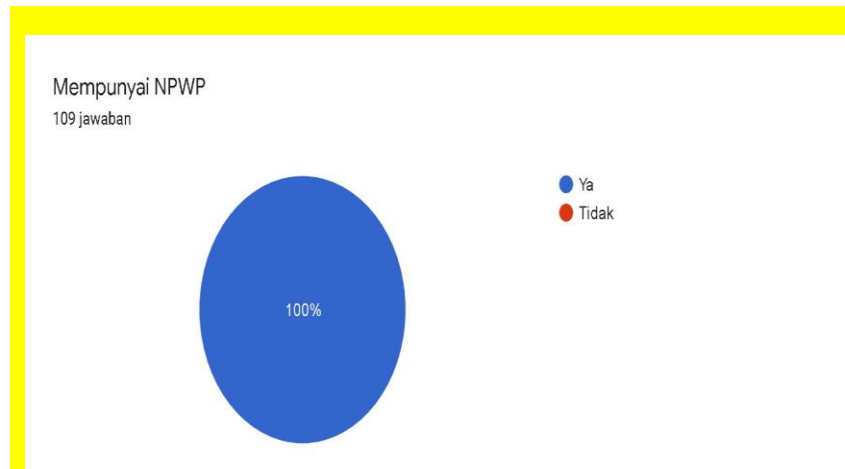
Based on the annual revenue data obtained from the collected questionnaires, the respondents can be categorized as follows: 54 respondents have an annual revenue below 300 million (49.5%), 38 respondents have an annual revenue between 300 million and 2.5 billion (34.9%), 17 respondents have an annual revenue between 2.5 billion and 4.8 billion (15.6%).

Diagram 5. Annual Revenue Distribution
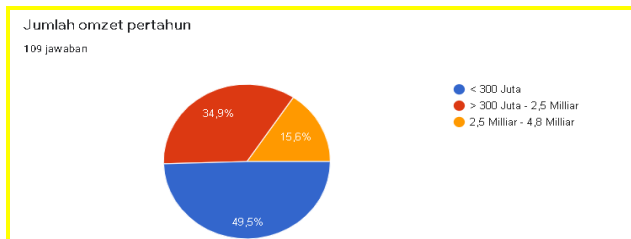
Based on the data obtained from the collected questionnaires, all 109 respondents are in West Jakarta, accounting for 100% of the sample population.

Tax Incentive Variable

The variable "Tax Incentive" refers to the incentives or benefits provided by the government to taxpayers as a means of encouraging certain behaviours or activities that align with national economic or social objectives. In the context of this research, it specifically pertains to the tax incentives offered to Micro, Small, and Medium Enterprises (MSMEs) in response to the impact of the COVID-19 pandemic. These tax incentives may include reductions in tax rates, tax exemptions, tax credits, or other forms of relief aimed at easing the tax burden on MSMEs. The objective of providing such incentives is to stimulate economic growth, support business continuity, and promote resilience among MSMEs during challenging times.

Tabel 1. Tax Incentive

	Mean	Min	Max	Standard Deviation
IP1	4.688	1.000	5.000	0.700
IP2	4.734	1.000	5.000	0.630
IP3	4.716	1.000	5.000	0.622
IP4	4.771	1.000	5.000	0.552

The descriptive statistical analysis reveals that MSMEs perceive the tax incentive policy as beneficial, with the highest mean score of 4.771 for the statement "This tax incentive policy benefits MSMEs." However, the lowest mean score of 4.688 is recorded for the statement "I utilize the tax incentive policy provided by the government," indicating limited utilization of the incentives. Additionally, the high standard deviation of 0.700 for the same statement suggests diverse responses. In conclusion, while MSMEs acknowledge the advantages of the tax incentive policy, there is room for improvement in its utilization, requiring efforts to enhance awareness and uptake among MSMEs.

Policy Socialization Variable

The descriptive statistical analysis reveals that MSMEs are well-informed about Government

Regulation No. 23 of 2018, with the highest mean score of 4.780 obtained for Item SP1 with the statement "I am aware of Regulation No. 23 of 2018 since its implementation." This indicates that MSMEs have knowledge of the regulation since its inception. However, the lowest mean score of 4.706 is recorded for Item SP3 with the statement "The socialization of Regulation No. 23 of 2018 conducted by the Tax Office officers (KPP) has been clear and effective for MSME taxpayers." This suggests that not many MSMEs perceive the socialization of Regulation No. 23 of 2018 as clear and effective when conducted by the Tax Office officers (KPP). Furthermore, the highest standard deviation of 0.622 is observed in Item SP2 with the statement "Print and electronic media services regarding the socialization of Regulation No. 23 of 2018 have been effective in raising my awareness to pay taxes." This indicates a diverse range of responses for this particular statement. In conclusion, while MSMEs generally possess knowledge about the regulation, there is room for improvement in the effectiveness of socialization efforts, especially those conducted by Tax Office officers, to enhance MSMEs' awareness and understanding of Regulation No. 23 of 2018 and tax compliance.

Tabel 2. Variable Socialisation of Government Regulation No. 23 Year 2018

	Mean	Min	Max	Standard Deviation
SP1	4.780	2.000	5.000	0.564
SP2	4.716	1.000	5.000	0.622
SP3	4.706	1.000	5.000	0.610
SP4	4.761	1.000	5.000	0.619
SP5	4.761	1.000	5.000	0.557

Tax Sanction Variable

The descriptive statistical analysis reveals that MSMEs generally perceive tax incentives as beneficial, with the highest mean score obtained for the statement "This tax incentive policy benefits MSMEs." However, the utilization of tax incentives appears to be limited, as indicated

by the lowest mean score for the statement "I utilize the tax incentive policy provided by the government." The results also suggest that there is a diverse range of responses regarding the effectiveness of socialization efforts for Government Regulation No. 23 of 2018 and tax compliance among MSMEs. Moreover, while MSMEs acknowledge the advantages of tax incentives, there is room for improvement in their utilization and awareness. The findings underscore the importance of enhancing socialization efforts to promote better understanding and uptake of tax incentives among MSMEs, thus encouraging tax compliance and fostering economic growth. Furthermore, the descriptive analysis indicates that MSMEs generally support the imposition of late payment sanctions to foster tax compliance, as evident from the highest mean score for the statement "Late payment sanctions are imposed to promote tax compliance, especially for MSMEs, in fulfilling their tax obligations." However, there is less agreement among MSMEs regarding the imposition of penalty fines for late tax payment. The diverse responses for this statement highlight the varying perspectives on the effectiveness and fairness of penalty fines. This emphasizes the need for a balanced approach in enforcing tax sanctions and calls for continuous efforts to educate MSMEs about the importance of timely tax payment and the consequences of non-compliance. Overall, the study sheds light on the perceptions of MSMEs towards tax incentives and sanctions, providing valuable insights to policymakers and tax authorities in their efforts to enhance tax compliance and support the growth of MSMEs.
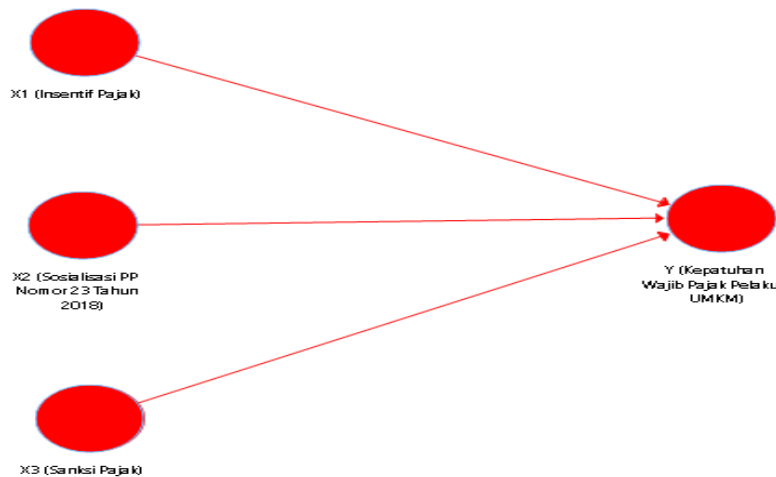
4.5 Structural Model

In this study, there are three exogenous variables: Tax Incentives, Socialization of Government Regulation No. 23 of 2018, and Tax Sanctions, while the endogenous variable is Taxpayer Compliance among MSMEs. The structural model aims to understand the relationships between

these variables and their impact on the tax compliance of MSMEs.

Tabel 5.

Variable	Item Statements and Questions	*Outer Loadings*	Result
Tax Incentive	IP1	0.820	High Reflection
	IP2	0.839	High Reflection
	IP3	0.813	High Reflection
	IP4	0.878	High Reflection
Government Regulation No. 23 Year 2018	SP1	0.806	High Reflection
	SP2	0.832	High Reflection
	SP3	0.836	High Reflection
	SP4	0.814	High Reflection
	SP5	0.896	High Reflection
Tax Sanction	SKP1	0.868	High Reflection
	SKP2	0.876	High Reflection
	SKP3	0.865	High Reflection
	SKP4	0.851	High Reflection
	SKP5	0.853	High Reflection
Taxpayer Compliance	KWP1	0.844	High Reflection
	KWP2	0.914	High Reflection
	KWP3	0.936	High Reflection
	KWP4	0.910	High Reflection
	KWP5	0.916	High Reflection

The measurement model is a component of Structural Equation Modeling (SEM) used to analyze the relationship between latent variables (unobservable constructs) and their measurable indicators. It helps depict how latent variables influence or "measure" their indicators. In the measurement model, latent variables are represented by circles or ovals, while indicators are represented by straight arrows connecting the latent variables to each of their respective indicators.

Picture 2. Structural Model

These arrows signify that the latent variables affect or "measure" the indicators. The SEM model is more complex than just having a measurement model since it also includes the structural model, which depicts the relationships between the latent variables themselves. In the structural model, arrows connect the latent variables to one another, reflecting causal or associative relationships between these latent variables. In conclusion, the measurement model is a part of SEM that helps illustrate the relationship between latent variables and their indicators through straight arrows. It allows researchers to understand and measure psychological constructs or other concepts that cannot be directly observed.

CONCLUSION AND RECOMMENDATIONS

This study was conducted to determine the influence of tax incentives, the socialization of government regulation (Minister of Finance Regulation No. 44/PMK.03/2020) on Tax Incentives for Taxpayers affected by the Coronavirus Disease 2019 pandemic, and tax sanctions on the level of tax compliance among MSME taxpayers located in West Jakarta. Based on the results of the conducted tests, the following are the conclusions drawn from this research:

1. Tax incentives and the socialization of Minister of Finance Regulation No. 44/PMK.03/2020 do not significantly affect the level of tax compliance among MSME taxpayers.

2. Tax sanctions have a significant effect on the level of tax compliance among MSME taxpayers.

Based on the discussion, conclusions, and limitations identified in this research, the researchers hope that this study will stimulate further research on the non-compliance of MSME taxpayers, and future studies can address the limitations encountered in this research. The following recommendations are proposed for consideration by other parties:

1. Obtain a larger sample size in future research. The next studies could be conducted at the provincial or other regional levels that have not been explored before.

2. To ensure the socialization of government regulations can be embraced by the public, the government needs to continuously improve the dissemination or education regarding taxation for MSME taxpayers. Utilizing social media platforms and closely monitoring the developments in MSMEs in Indonesia with intensive intervals, such as monthly or quarterly, could be beneficial.

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