



The Harmonization of Tax Regulations for MSMEs Owners Amid the Covid-19 Pandemic

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Abstract— As the Covid-19 pandemic enters its third year in 2022, Micro, Small, Medium Enterprises (MSMEs) are most affected by the pandemic. Therefore, the government issued the Law of the Republic of Indonesia Number 7 of 2021 on the Harmonization of Tax Regulations (HTR), so that individual taxpayers, including MSMEs, who acquire gross turnover up to Rp500,000,000 (five hundred million rupiah) in 1 (one) tax year is not subject to income tax on the share of gross turnover. However, the initial survey shows that there are taxpayers who have not taken advantage of this facility. Therefore, this study analyzes the harmonization of tax regulations for MSMEs owners during the Covid-19 pandemic. This study utilizes two data collection methods, namely Focus Group Discussions (FGD) with tax authorities and surveys to MSMEs owners. The results show that Kupang Primary Tax Office (KPP Pratama Kupang) is ready to implement the HTR law by conducting socialization, especially for MSMEs owners, even though there are some obstacles such as constraints on conducting face-to-face meeting due to strict health protocols during pandemic, network connection, the availability of time and energy, as well as the accessibility to reach remote locations. In addition, the HTR law reduces tax revenues from MSMEs but state revenues from the overall tax sector shows no significant issues. On the other hand, the survey shows that the annual gross turnovers of participating MSMEs reach the value of Rp500,000,000 and more. Moreover, 73.3% of respondents already obtain Micro and Small Business License (MSBL), but only 43.3% of respondents are aware about the enactment of the HPP law. Moreover, 46.7% of respondents are aware that the limit of the non-taxable gross turnover is Rp500,000,000, and 56.7% of respondents know that an income tax of 0.5% will be imposed upon the gross turnover of more than Rp500,000,000. In general, MSMEs owners positively welcome the HTR law as it reduces the tax burden.

Keywords— Taxes, Income Tax Rates, MSMEs, Covid-19

I. INTRODUCTION (HEADING I)

As the COVID-19 pandemic enters its third year in 2022, the confirmed cases globally, including Indonesia, are increasing along with the outbreak of a new Omicron variant. As of March 3, 2022, the number of confirmed cases of COVID-19 in Indonesia is 5,667,355 with a recovery rate of 4,986,391. The active cases reach the number of 531,696 with a death rate of 149,268 people. Therefore, the government of Indonesia implements the large-scale social restrictions policy. However, this restriction has a severe impact on the social,

economic and financial sectors. [1] States that the social impact refers to the disruption of economic activity that absorbs labor, especially the informal sector. Thus, the economic performance declines sharply due to disrupted consumption, hampered investment, interrupted exports and imports, and delayed growth in various sectors. The financial sector also becomes volatile due to the declined performance on the real sector.

[2] Micro, Small, Medium Enterprises (MSMEs) dominate the business sector in Indonesia as it comprises of 99.9 % of the 64.2 million business units in total. Micro enterprises, which refers to a business unit with a maximum gross turnover of Rp300 million per year and has a maximum asset of 50 million, comprise the largest number of 63.3 million business units. Therefore, this data illustrates that the MSMEs sector is the group most affected by the COVID-19 pandemic.

On the other hand, the rise of COVID-19 cases has threatened the continuity of businesses, especially MSMEs, thereby increasing the unemployment rate across the African continent and has posed critical challenges for the expansion of enterprises [3]. MSMEs can be the key to the community's economic recovery during the COVID-19 pandemic and beyond [4]. In India, MSMEs play the key roles during the post-COVID economic recovery and this is possible due to the supplementary support packages provided right after the COVID-19 economic crisis hit [5].

In response to this the government of Indonesia issues [6] the Government Regulation of the Republic of Indonesia number 23 of 2020 on the Implementation of the National Economic Recovery Program (NER) in order to Support the State Financial Policies in Tackling 2019 Corona Virus Disease (COVID-19) Pandemic and/or Dangerous Threats to the National Economy and/or Financial System Stability and National Economic Recovery, which was further amended by the Government Regulation of the Republic of Indonesia Number 43 of 2020. The government also issues the Regulation of the Minister of Finance (PMK) No. 44/PMK.03/2020 on tax incentives for taxpayers affected by the 2019 Corona Virus pandemic. Another support scheme available for MSMEs is the Micro, Small, Medium Enterprises (MSMEs) Final Income Tax Incentives borne by the Government.

Moreover, in 2022 the Government issued [7] the Law of the Republic of Indonesia Number 7 of 2021 on the Harmonization of Tax Regulations. The regulation states that individual taxpayers who have a gross turnover up to Rp500,000,000 (five hundred million rupiah) in 1 (one) tax year are not subject to income tax on the share of gross turnover. However, it is unclear whether MSMEs taxpayers know, understand, and take advantage of this particular law. The initial surveys in the field show that there are MSMEs owners with a gross turnover below Rp500,000,000 who still pay taxes. On the other hand, it is also important to examine the response of the tax office towards the law as the derivative rules and mechanism have not been released by the government.

II. LITERATURE REVIEW

A. Harmonization Of Tax Regulations

The government of Indonesia issues the Law of the Republic of Indonesia Number 7 of 2021 on the Harmonization of Tax Regulations. The purpose of the law is to increase sustainable economic growth, support the acceleration of economic recovery, optimize state revenues to finance state development independently towards a just and prosperous Indonesian society, implement a tax system that is impartial and lawful, enact administration reforms, consolidate taxation policies, expand the tax base, and increase taxpayer voluntary compliance.

B. The Micro, Small, and Medium Enterprises

Government Regulation [8] states that micro enterprises are productive business units owned by individuals and/or business entities with annual sales up to a maximum of Rp2,000,000,000 (two billion rupiah). Meanwhile, small enterprises are independent productive business units owned by individuals and/or business entities, not the subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly of a medium or large business, with annual sales of more than Rp2,000,000,000 (two billion rupiah) to a maximum of Rp15,000,000,000 (fifteen billion rupiah). Furthermore, medium enterprises are independent productive businesses units owned by individuals and/or business entities, not the subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly of a medium or large business, with annual sales of more than Rp15,000,000,000 (fifteen billion rupiah) up to a maximum of Rp50,000,000,000 (fifty billion rupiah).

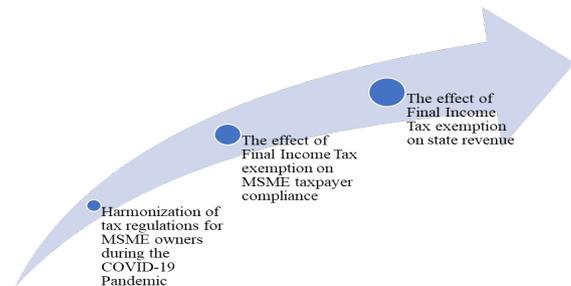
C. Final Income Tax Of MSMEs

The Government Regulation [9] states that business income obtained by domestic taxpayers who have a gross turnover up to Rp4.8 billion in 1 (one) tax year is subject to final income tax. The final income tax rate is 0.5% of the total gross turnover. Based on the latest regulation, the Law Number 7 of 2021, individual taxpayers who have a gross turnover up to Rp500,000,000 are not subject to the income tax of the share of gross turnover up to 1 (one) tax year. Therefore, MSMEs that have a gross turnover not exceeding Rp500,000,000 are exempt from paying the final income tax.

D. Covid-19 Pandemic

COVID-19 stands for Coronavirus Disease 2019 and [10] states that COVID-19 is an infectious disease caused by a type of coronavirus. The disease was first discovered in Wuhan, China, in December 2019 and now is declared as a pandemic that has spread in many countries around the world. Figure 1 illustrates the research roadmap based on the background and literature review.

Figure 1 Research Road Map



III. METHODS

This study uses a descriptive qualitative approach. Research data are collected through focus group discussions (FGDs) [11]. The respondents of FGDs are the tax counselors at the Kupang Primary Tax Office. This research also collects data by survey. Survey is a consistent method of data collection that are useful for documenting existing conditions in the community, characteristics of a population, and community preferences [12]. The survey is conducted among MSMEs taxpayers in Kupang City. The appropriate sample size for a survey in a research is between 30 to 500 Roscoe in [13]. Considering the limitation of time, resource, and cost, the author conducts a survey on 30 MSMEs registered at the Kupang Primary Tax Office.

IV. RESULTS

Below are the results of FGD with the tax authorities:

A. The readiness of Kupang Primary Tax Office The readiness of Kupang Primary Tax Office

In general, Kupang Primary Tax Office is ready to facilitate the enactment of the Law of the Republic of Indonesia Number 7 of 2021 on the Harmonization of Tax Regulations.

B. The stages of socialization by Kupang Primary Tax Office:

1) Build partnership with various parties, such as professional organizations and higher education institutions in order to recruit tax volunteers. Tax volunteers are the results of the collaboration between the tax authority and the higher education institutions in order to increase the tax awareness [14].

2) Inform the MSMEs taxpayers about the HTR law. This stage is carried out by billing officers at the primary tax office.

3) Conduct socialization through the display of banners at the primary tax office, public service announcement, radio,

newspapers, and social media, as well as online socialization utilizing Zoom application.

C. The challenges

Following are the challenges faced by Kupang Primary Tax Office:

- 1) The primary tax office is unable to conduct face-to-face or onsite counseling during the pandemic.
- 2) Various online obstacles are present during the online socialization, such as network problems and low attendance.
- 3) Conduct socialization through the display of banners at the primary tax office, public service announcement, radio, newspapers, and social media, as well as online socialization utilizing Zoom application.

D. The impact of the HTR law

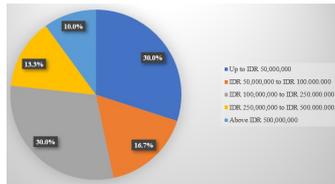
The enactment of the Law of the Republic of Indonesia Number 7 of 2021 on the Harmonization of Tax Regulations (HTR) has reduced the state tax revenue sourced from the MSMEs. However, this subtraction can be counterbalanced by the adjustments to other tax revenues, such as the VAT rate that has increased from 10% to 11%. Therefore, there is no issue in the total state revenues from the tax sector as a whole.

Furthermore, the survey results to 30 respondents are as follows:

A. The impact of the HTR law

Figure 2 shows the total of gross turnover of respondents for one year. 30% of respondents earn up to Rp50,000,000, while 16.7% of respondents acquire a gross turnover of Rp50,000,000 – Rp100,000,000, and 30% of respondents earn from the range Rp100,000,000 to Rp250,000,000. Furthermore, respondents who receive a gross turnover of Rp250,000,000 are 13.3%, and There are 10% respondents who earn more than Rp500,000,000.

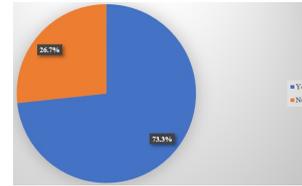
Figure 2 The Gross Turnover Obtained by the Respondents



B. The impact Micro and Small Business License (MSBL)

As shown in Figure 3, 73.3% of respondents already have a Micro and Small Business License (MSBL), while 26.7% have not gotten the license.

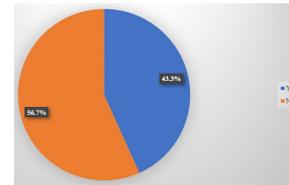
Figure 3 Micro and Small Business License (MSBL) Holders



C. Enforcement of the law

Based on Figure 4, 43.3% of respondents already know about the enactment of the Law of the Republic of Indonesia Number 7 of 2021 on the Harmonization of Tax Regulations, while the remaining 56.7% of respondents do not know about the regulation.

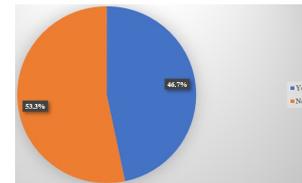
Figure 4 Enforcement of the law



D. Non-Taxable Turnover

Figure 5.4 shows that 46.7% of respondents understand that MSMEs that have a gross turnover up to Rp500,000,000 in one tax year are not subject to final income tax. In other words, the non-taxable turnover (NTT) of MSMEs is Rp500,000,000. On the other hand, 53.3% of respondents do not know about this information.

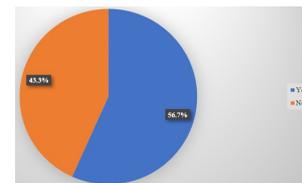
Figure 5 Non-Taxable Turnover



E. Tax Rate

In addition of the statement above, figure 6 shows that 56.7% of respondents know that an income tax of 0.5% will be imposed on top of a gross turnover of Rp500,000,000 in one tax year. The remaining 43.3% of respondents do not know about this particular tax rate.

Figure 6 MSMEs Income Tax Rate



F. Taxpayers Opinion

Based on the survey, almost all respondents enthusiastically welcome the law. The law is considered very beneficial for

MSMEs owners, considering the tax need to be paid only if the gross turnover is above Rp500,000,000 in one tax year.

G. Impact on MSMEs

Based on the survey results, the impact of the law on MSMEs taxpayers is greatly positive as it reduces the tax burden.

V. CONCLUSION

This research grant is supported by DIPA Kupang State Polytechnic. In general, KPP Pratama Kupang is ready to implement the Law on Harmonization of Tax Regulations by conducting socialization, especially for MSME actors. On the other hand, several obstacles faced by KPP are network, socialization that cannot be done directly due to the pandemic, time, effort, and the geographical aspect of taxpayers is difficult to reach by officers. The realization of the HPP law has the effect of reducing tax revenues from MSMEs but there is no problem regarding state revenues from the tax sector as a whole. The survey results state that the annual turnover of MSME actors is up to Rp. 500,000,000, even above Rp. 500,000,000. In addition, 73.3% of respondents already have a micro and small business license, 43.3% of respondents are aware of the enactment of the HPP law, 46.7% of respondents understand that the non-taxable turnover is Rp. 500,000,000, and 56.7% of respondents. knowing that an income tax of 0.5% will be imposed on top of the gross turnover of IDR 500,000,000. In supporting this statement, in general, MSME actors welcome the HPP law because it reduces taxes.

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