

The impact of tax policy on MSME growth in South Jakarta

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ABSTRACT

This study aims to analyze the impact of tax policy on the growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia, focusing on the South Jakarta area. Tax policy, particularly the implementation of the 0.5% Final Income Tax rate based on Government Regulation No. 23 of 2018 and Government Regulation No. 55 of 2022, is an important instrument for encouraging business formalization and increasing MSMEs' fiscal participation. The approach used is descriptive qualitative, with data collection techniques through in-depth interviews, field observations, and documentation studies of regulations and reports of the Directorate General of Taxes. The results show that tax policy positively impacts MSME growth and sustainability, especially through tariff simplification and increased access to financing facilities. However, the effectiveness of the policy is still influenced by low tax literacy, the complexity of digital administration, and minimal socialization from tax authorities. Some MSMEs still demonstrate instrumental compliance, that is, compliance due to obligation rather than fiscal awareness. Conceptually, this study emphasizes that taxes play a role not only as a fiscal instrument but also as a tool for empowering the people's economy. For MSME tax policies to function optimally, strategies based on fiscal education, administrative digitization, and cross-institutional synergy between the central and regional governments and MSME communities are required.

Keywords: Tax Policy, MSMEs, 0.5% Final Income Tax, Economic Growth, Economic Empowerment, South Jakarta

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1. INTRODUCTION

The micro, small, and medium enterprises (MSME) sector plays a strategic role in the Indonesian economy. According to recent data, the contribution of MSMEs to Gross Domestic Product (GDP) is approximately 60.5% (UBS Journal of Economics and Business). Furthermore, MSMEs function as large labor absorbers and become the basis for inclusive development in various regions. Due to their significant role, the Indonesian government has issued various fiscal and tax policies specifically targeting MSMEs to encourage growth, inclusion, and business formality. One important policy is the regulation of final income tax (PPh) rates and provisions for MSMEs through regulations such as Government Regulation Number 55 of 2022 (PP 55/2022) and, previously, Government Regulation Number 23 of 2018 (PP 23/2018).

The regulation stipulates that MSMEs with gross circulation (turnover) of up to IDR 4.8 billion per year can be subject to a final income tax rate of 0.5% of turnover (Kompas Money). Meanwhile, for micro businesses with turnover \leq IDR 500 million per year, there is a facility for exemption from final income tax.

Micro, Small, and Medium Enterprises (MSMEs) are a strategic sector that supports Indonesia's national economy. According to data from the Ministry of Cooperatives and SMEs in 2024, the number of MSMEs reached more than 65 million business units, or approximately 99.9% of all businesses in Indonesia. This sector employs approximately 97% of the workforce and contributes more than 60% to the national Gross Domestic Product (GDP) (KemenkopUKM, 2024). Given such a significant contribution, strengthening and growing MSMEs has become a key focus of the Indonesian government's economic policy, particularly in the context of post-pandemic recovery and digital transformation.

Tax policy is an important instrument for encouraging the growth of MSMEs. Taxes have a dual function: as a source of state revenue (*budgeting*) and as a regulatory tool (*regulator*) to achieve economic development goals (Mankiw, 2016). In the context of MSMEs, tax policy plays a role not only in increasing taxpayer compliance but also in creating a conducive business climate and encouraging the informal sector to transform into a formal sector.

The Indonesian government has issued various tax policies to support MSMEs. One important policy is Government Regulation Number 23 of 2018 concerning Income Tax on Income from Businesses Received or Obtained by Taxpayers with a Certain Gross Turnover, which sets a Final Income Tax rate of 0.5% of turnover for MSMEs with a maximum annual gross turnover of IDR 4.8 billion. This policy was later updated through Government Regulation Number 55 of 2022, which extended the validity period of incentives and provided greater flexibility for MSMEs to adapt to the modern tax system (Directorate General of Taxes, 2023).

This policy is expected to reduce the administrative and fiscal burdens on small businesses, improve tax compliance, and broaden the national tax base. Several studies have shown that low tax rates positively impact MSME sustainability and expansion (Rizqia, 2023; Aribowo, 2022). However, its effectiveness remains controversial. Some business owners believe that despite low tax rates, administrative complexity and low tax literacy remain obstacles to implementation (Susanti & Nugroho, 2023). Furthermore, there are indications that some MSMEs are employing tax avoidance strategies by splitting their business units to stay below the 0.5% final tax rate (Antara News, 2025). This phenomenon demonstrates *moral hazard* and a lack of oversight in tax policy implementation, which should encourage formality rather than create economic distortion.

Conversely, the development of digital technology and e-commerce platforms opens up new opportunities for MSMEs to grow rapidly. However, digitalization also poses new challenges to the tax system, particularly in terms of online transaction reporting, data transparency, and the interconnectedness of tax administration systems (OECD, 2023). This suggests that the effectiveness of tax policies on MSME growth is heavily influenced by the dynamics of the digital economy and the capacity of business actors to adapt to regulatory change.

Thus, in-depth research is needed to analyze the extent to which tax policies influence the growth of MSMEs in Indonesia in terms of turnover, business expansion, and tax formalities. This analysis is

crucial not only for measuring direct economic impacts but also for providing recommendations for more inclusive, equitable, and sustainable fiscal policies to strengthen the MSME sector as the backbone of the national economy.

It can be emphasized that in the context of the Indonesian economy facing global competition and digital transformation, MSMEs are not only the backbone of the national economy but also a crucial instrument of inclusive development and job creation. Therefore, appropriate, fair, and supportive fiscal and tax policies are critical for MSMEs to grow in a healthy and sustainable manner. This study attempts to fill the gap between tax regulations and the reality of MSME growth on the ground, with the hope of producing findings that will be useful for policy improvement.

2. METHOD

This study uses a descriptive qualitative approach to understand how tax policies affect the growth of MSMEs in Indonesia from the perspective of business actors and policymakers. A qualitative approach was chosen because it allows researchers to explore the meaning, perceptions, and experiences of the research subjects regarding applicable tax policies (Creswell, 2018). The study was conducted in South Jakarta, and the research subjects included MSMEs from various sectors (culinary, trade, services, and digital), regional tax officials, and MSME associations or tax consultants.

Data were collected through in-depth interviews with MSMEs and tax officials, field observations of MSME tax administration and compliance processes, documentation studies of regulations (PP No. 23 of 2018, PP No. 55 of 2022), DGT reports, and related publications. Data analysis was carried out interactively following the model of Miles, Huberman and Saldaña (2014) through three stages: 1). Data reduction selects information relevant to the research focus, 2). Data presentation grouped the results of interviews and documents into main themes (e.g., compliance, tariff perception, administrative barriers), 3). Conclusion drawing and verification interpret patterns and relationships between themes to answer the research questions. Data validity is maintained through triangulation of sources and methods, by comparing the results of interviews, observations, and official documents so that interpretations are credible and accountable.

3. RESULT AND DISCUSSION

3.1 Results

Interviews with MSMEs in South Jakarta, Yogyakarta, and Surabaya showed that most respondents considered the 0.5% Final Income Tax rate, as stipulated in Government Regulation No. 23 of 2018 and Government Regulation No. 55 of 2022, to be quite lenient and helpful for business continuity. This policy is considered to provide fiscal certainty and encourage businesses to engage in formal transactions. However, MSMEs' understanding of tax regulations remains low. Many do not understand the Rp 4.8 billion turnover limit and tax exemption provisions for turnover below Rp 500 million. This indicates that tax literacy is a key factor influencing policy effectiveness (Susanti & Nugroho, 2023).

"The rates are indeed small, but we are confused about calculating and reporting them, especially if we sell online (Interview, Culinary MSME, South Jakarta, 2025).

These findings indicate that administrative complexity and a lack of public awareness of tax authorities remain major obstacles to policy implementation. A simpler tax policy has been shown to have a positive impact on revenue growth and business expansion. Some businesses stated that the 0.5% final rate has made them more confident in developing their businesses and opening new ones. Observations also show that MSMEs registered as taxpayers and possessing a Taxpayer Identification Number (NPWP) have easier access to bank credit and government financing programs, such as the People's Business Credit (KUR) and the Village Fund for Small and Medium Enterprises (LPDB). This indicates an indirect effect of tax policy on business growth through improved access to capital and business legality (Aribowo, 2022;

Ministry of Cooperatives and SMEs, 2024). However, some businesses are splitting their business units to stay below the Rp 4.8 billion turnover threshold and enjoy lower tax rates. This practice demonstrates the potential *moral hazards* and weaknesses in the oversight system (Antara News, 2025). This phenomenon underscores the importance of digital data-based oversight in ensuring fair tax policies and preventing market distortions.

In the context of the digital economy, MSMEs in the e-commerce sector face new challenges in tax reporting. Many actors do not understand the tax deduction mechanisms for online transactions on marketplace platforms. Technical constraints, such as online reporting systems, limited digital literacy, and the lack of data integration between marketplaces and the Directorate General of Taxes (DGT), present significant obstacles. As stated by the OECD (2023), the digital capacity of tax administrations must evolve in line with the transformation of the digital economy to ensure the fairness and efficiency of the tax system. Furthermore, some business actors believe that digital platform taxes (such as VAT on PMSE) often overlap with MSME tax obligations, creating confusion and the risk of duplication of fiscal burdens for MSMEs.

The research findings show that tax policies designed with the principles of simplicity and fairness can serve as instruments of economic empowerment and not merely as collection tools. However, for these policies to truly impact the growth of MSMEs, an integrated approach is needed: ongoing tax education through mentoring at the regional level, digitalization of the administrative system to facilitate compliance and reduce transaction costs, connectivity of tax policies and access to financing, so that tax compliance provides direct benefits for MSMEs, and data-based monitoring to prevent the abuse of tax facilities. These findings align with fiscal policy theory, which states that taxes can be a *policy tool* to stimulate growth in the productive sectors (Mankiw, 2016).

Indonesia's MSME tax policy has been shown to have a positive impact on business growth and formalization, particularly through low tax incentives and simplified administration. However, its effectiveness is still influenced by tax literacy, digital readiness, and implementation oversight. To optimize this policy, the government needs to strengthen the integration of tax digitalization and fiscal literacy-based MSME assistance and clarify tax mechanisms in the digital sector to avoid overlapping obligations.

3.2 Discussion

3.2.1 General Perception of MSME Tax Policy

South Jakarta is one of the areas with a high and diverse concentration of MSMEs, ranging from culinary, fashion, and creative services to e-commerce-based digital businesses. Based on data from the DKI Jakarta PPKUKM Office (2024), there are more than 250,000 registered MSMEs in this area, of which around 40% have a Taxpayer Identification Number (NPWP) and follow the 0.5% Final Income Tax scheme as regulated in PP No. 23 of 2018, which was later updated to PP No. 55 of 2022. This makes South Jakarta an interesting representative for researching how small business actors understand, respond to, and assess applicable tax policies. Interviews with 15 MSMEs from various sectors in Kebayoran Baru, Pasar Minggu, and Tebet revealed that most had a positive view of the 0.5% final tax rate. They considered this rate relatively low and fairer than the progressive tax system applied to large companies.

"We can still afford a 0.5 percent fee, especially if our turnover is not large. But sometimes we are confused about reporting it," (Interview, Online Fashion Store Owner, Kebayoran Baru, 2025).

However, understanding tax mechanisms and provisions remains low. Most respondents were unaware of the IDR 4.8 billion annual turnover limit and the validity period of the final tax facility. This indicates a lack of outreach and support from the local tax authorities. This finding aligns with that of Susanti and Nugroho (2023), who found that one of the main obstacles to tax compliance among urban MSMEs is a lack of fiscal literacy and negative perceptions of the complexity of the tax system.

MSMEs' perceptions of tax policy in South Jakarta are influenced by several key factors: 1). Those with an economics education background or those who have attended tax training have a better understanding, while most actors in the culinary and informal service sectors admit to having never

received formal guidance on tax obligations. 2). Although tax rates are considered low, MSMEs still consider the online reporting system via e-Filing and DJP Online to be less user-friendly. For some small business owners, especially those in the older generation, using digital systems remains a barrier. 3). Some owners believe that the direct benefits of paying taxes are not yet tangible. They hope that tax compliance can be linked to tangible incentives such as priority access to capital, training, or reduced business administration costs.

"We are willing to pay taxes as long as there is a direct benefit. For example, those who pay taxes regularly can receive priority capital assistance," (Interview, Culinary MSME, Pasar Minggu, 2025).

Positive perceptions of tax policy emerge when business actors feel that taxes are used transparently. However, some remain skeptical about the effectiveness of tax funds in supporting the real sector. Conceptually, MSMEs' perceptions of taxes can be understood through two dimensions: instrumental compliance, where actors comply due to fear of sanctions, and normative compliance, where actors comply due to moral awareness and mutual benefit (Kirchler, 2007). In South Jakarta, the majority of MSMEs demonstrate instrumental compliance, namely paying taxes only to fulfill administrative obligations, not out of an awareness of contributing to development.

This is influenced by tax authorities' suboptimal persuasive and educational approaches. Repressive approaches (e.g., threats of fines or sanctions) still dominate participatory strategies, such as community-based tax training. Therefore, sound tax policies are not necessarily effective unless accompanied by strengthening fiscal awareness through public communication and ongoing literacy programs.

Findings in South Jakarta indicate that the low tax rate policy does help small businesses, but its effectiveness is still limited by literacy and trust gaps. To strengthen the positive impact of tax policy on MSMEs, several steps can be considered: collaborative outreach between the Directorate General of Taxes (DGT), the South Jakarta City Government, and the MSME community through mobile tax clinics or *tax corners* in business centers. Integration of MSME digital data with the tax system so that businesses do not need to report manually is also suggested. Providing non-fiscal incentives for taxpayers who comply with taxes, such as priority access to financing or business certification, is also important. Sector-based tax literacy training, especially for digital and culinary MSMEs, which are growing the most in urban areas, is needed.

MSMEs in South Jakarta tend to have positive perceptions of tax policy, particularly regarding rates and policy intent, but negative perceptions regarding administrative complexity and low levels of public awareness. This indicates that fiscal policy has not fully addressed the social and educational aspects required to build sustainable tax awareness. By strengthening tax literacy, improving digital administration systems, and fostering trust between businesses and the government, tax policy can function optimally as an instrument for empowering urban MSMEs.

3.2.1 Tax Policy as an Instrument of Empowerment

Tax policy does not merely function as a fiscal instrument to increase state revenue but can also be an instrument for empowering the community's economy, especially for the sector. Micro, Small, and Medium Enterprises (MSMEs). In South Jakarta, the research results show that MSME actors are starting to view taxes not only as a burden but also as a means to obtain business legality, access to government facilities, and financing support.

Based on interviews with MSMEs in the Mampang and Tebet areas, many respondents stated that tax compliance is the first step towards business formalization. By obtaining a Taxpayer Identification Number (NPWP) and being registered as an active taxpayer, they gain access to people's business credit (KUR), training programs from the Cooperatives Office, and ease in participating in government procurement of goods and services. This is in line with the view of Bird and Zolt (2015), who emphasized that an inclusive tax system can encourage the transition from the informal to the formal sector, thereby increasing local economic capacity.

Government policies, such as Government Regulation No. 23 of 2018, which sets a final income tax rate of 0.5% for MSMEs, have proven to ease their administrative and financial burdens. Several MSMEs stated that this incentive provides space for small businesses to grow before being subject to the normal rate. However, challenges remain, as some business owners lack an understanding of the digital tax reporting mechanism through the DJP Online system. This demonstrates the need for improved tax literacy to optimally utilize incentives (Siregar, 2021).

From a public policy perspective, taxes have an important redistributive function in the economy. Revenue from the MSME sector can be repaid through loan interest subsidy programs, business digitalization training, and strengthening cooperatives. Thus, taxes serve as a mechanism for equitable socioeconomic empowerment. In the context of fiscal justice theory (Musgrave & Musgrave, 1989), taxes proportional to taxpayers' capabilities encourage the creation of horizontal justice. and vertical, strengthening social cohesion, and fostering a sense of belonging to the country.

Empowerment through tax policy is only effective if accompanied by inter-institutional synergy between the Directorate General of Taxes (DGT), local governments, and MSME communities. Participatory approaches, such as community-based outreach, simple tax training, and compliance-based incentives, have been shown to strengthen trust between the government and businesses. This finding is consistent with the OECD (2020), which states that responsive and educational tax policies can increase voluntary compliance in the MSME sector. Tax policy in Indonesia, particularly in South Jakarta, shows strong potential as a tool for economic empowerment when balanced with fiscal literacy, administrative simplification, and cross-sectoral policy support. With the paradigm of tax as an "enabler" rather than a "burden," MSMEs can transform into a strategic part of national economic development.

4. CONCLUSION

This study shows that tax policy has a dual impact on MSME growth in Indonesia, particularly in South Jakarta. On the one hand, tax policy plays a crucial role in encouraging business formalization, expanding MSME access to financing sources, and raising business awareness of the importance of fiscal contributions to development. However, on the other hand, structural and cultural challenges remain, particularly in terms of tax literacy, administrative complexity, and unequal access to tax information. Policies such as Government Regulation No. 23 of 2018 have been shown to provide room for MSMEs to grow through lower tax rates and simplified procedures. However, the effectiveness of this policy will only be optimal if balanced with an educational approach, ongoing outreach, and support for the digitalization of tax services that are easily accessible to small businesses in the long run. Conceptually, the results of this study confirm that taxes are not only a fiscal instrument but also an instrument for empowering the people's economy. By shifting the tax paradigm from a "burden" to an "opportunity," tax policy can strengthen the competitiveness of MSMEs, expand the formal economic base, and contribute to inclusive and socially just economic growth.

Ethical Approval

Not Applicable

Informed Consent Statement

Not Applicable

Disclosure Statement

The Authors declare that they have no conflict of interest

Data Availability Statement

The data presented in this study are available upon request from the corresponding author for privacy.

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Notes on Contributors

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