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ABSTRACT

This study aimed to evaluate the MSME tax incentives utilization during the Covid-19 pandemic at the ABC Tax Office using questionnaires and interviews with tax authorities and MSMEs. The results showed that the utilization of MSME tax incentives in the ABC Tax Office was relatively 43% and 15% in 2020 and June 2021, respectively. The low utilization was caused by a complicated administrative process and a lack of utilization target by the ABC Tax Office. Furthermore, the practical implication was that the MSMEs tax incentive policy has not optimized the presumptive tax regime theory due to a complex administrative process that discourages applications. Tax authorities should increase incentives utilization to accelerate MSMEs recovery. At the same time, tax regulators should develop accessible and applicable tax incentives for the sector. This will ease compliance for those with poor technology and internet knowledge.

Keywords: Covid-19 pandemic, MSME, MSMEs Tax Incentives, Tax Incentives

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1. INTRODUCTION

The Covid-19 pandemic has economically affected countries worldwide, including Indonesia. The OECD report in Pakpahan (2020) stated that Small and Micro Medium Enterprises (MSMEs) were the most affected. According to Padyanoor (2020), MSMEs are the pillars of the Indonesian economy, contributing 61% with a workforce absorption of 116,978,631. The Ministry of Cooperatives and SMEs in October 2020 surveyed the impact of the Covid -19 pandemic on 3000 MSMEs and established that 78% experienced a turnover reduction. Furthermore, MSME faced three financial problems: lack of working capital, high operational costs, and client payment delays. Therefore, they implemented survival strategies, such as creating new markets and products, reducing labor, temporarily closing businesses, and expanding business.

The Economic Research Center conducted a similar survey and found that most micro-businesses experienced a decline in sales. Furthermore, they collected the business actor's perceptions of the MSMEs survival and established that 47.13% were estimated to survive until August 2020, 72.02% after November 2020, and 85.42% within a year since the pandemic started (LIPI, 2020).

The government launched the National Economic Recovery Program to increase the MSME sector's survival. Following Article 11 of Government Rule Number 1 of 2020, the program should protect, maintain, and improve the economic capacity of the real and financial sector business actors. Additionally, the program is provided in six forms of stimulus, including tax incentives calculated as Government-borne Final Tax Income 0.5% and regulated in PMK-82/PMK.03/2021. Table 1 shows the level of national tax incentives utilization since April 2020. Table 1 shows that the national utilization rate of MSME tax incentives in 2020 and 2021 were 10.75% and 5.42%, respectively. Despite its popularity and aim to enhance business continuity, the utilization rate is low.

Table 1. National Utilization of MSME Tax Incentives

Description	2020	2021
National Taxpayers who utilize MSME tax incentives	248.275	125.198
National MSME Taxpayers	2.310.000	
MSME Tax Incentive Utilization Rate	10.75%	5.42%

This study evaluated the MSME tax incentive policy implementation at the ABC tax office to understand its low utilization during the pandemic. The preliminary study, including Apriliasari (2021), evaluated the MSMEs utilization of the Government-borne Final Tax Income incentives during the pandemic at XYZ Tax Office by interviewing tax authorities. The results showed that KPP XYZ has not optimized the tax incentives utilization because several taxpayers are unaware of the incentives and the obligation to submit realization reports. This indicates a gap in previous studies on evaluating MSME tax incentive policies. Previous studies did not measure taxpayers' perceptions of why they do not utilize incentives. Therefore, this study measured Taxpayer's perceptions using questionnaires and interviews with MSMEs to understand why they do not utilize tax incentives.

The implementation of the tax incentive policy in the ABC Tax Office was evaluated by interviewing tax authorities to analyze the causes of low utilization during the pandemic. This included assessing taxpayers' perceptions and implementing the MSME tax incentive policy at the tax office. The results will contribute input to the Directorate General of Taxes to design appropriate tax incentives, increasing incentives utilization to restore MSMEs businesses during the pandemic.

2. LITERATURE REVIEW

2.1. PRESUMPTIVE TAX REGIME

Several studies evaluating MSMEs tax policies used a presumptive tax regime approach to improve taxpayer compliance. Various countries use two tax model approaches, the standard and presumptive tax regime (Thuronyi, 1996). The standard model holds small businesses with similar tax treatment and is common in developed countries with high administrative efficiency and adequate

bookkeeping. This applies to simple tax forms, payment procedures, or tariff reductions. The presumptive tax regime model follows certain taxpayer conditions and is common in countries with hard-to-tax groups and inadequate administrative resources. Therefore, taxpayers lack financial transparency for effective taxation, making the government estimate or assume the taxable income limits to increase compliance and bookkeeping implementation. This approach is widely used globally to facilitate small businesses' tax compliance, specifically in developing countries (Nuryanah, 2021; Aditya, 2020; Bucci, 2020; Iswahyudi, 2020; Iordachi & Tirlu, 2016). This model is also implemented to ensure convenience, improving taxpayers' compliance.

The small businesses included in this research followed the criteria in Government Regulation Number 23 of 2018. It is stated that the taxpayers for MSMEs have an inevitable gross turnover subject to Final Income Tax. They include individual taxpayers, limited partnerships, firms, or limited liability companies with a gross income turnover not exceeding IDR 4,800,000,000 in a tax year. Based on this regulation, MSMEs are subject to an income tax rate of 0.5%.

2.2. PREVIOUS STUDIES

Limited studies have evaluated the MSME tax incentives received during the pandemic. Apriliasari (2021) evaluated the use of MSME tax incentives at the XYZ tax office by interviewing tax authorities. The applied criteria included tax incentives utilization level, impact on tax revenues, and optimization efforts by the tax office. The results showed that the incentives utilization at KPP XYZ in 2020 lacked optimization due to taxpayer ignorance and the obligation to submit realization reports.

A study on SMEs' behavior in the UK during the Covid-19 pandemic found reduced funds in their daily operations from sales decline (Cowling, Brown, & Racha, 2020). In addition, the businesses were more vulnerable to external shocks, such as recessions or limited internal resources, customer base, product lines, consumer and supplier bargaining power, and financial providers, than larger companies (Smallbone et al., 2012). This indicated that their recovery was as essential as increasing customers and sales (Doern (2016)). Therefore, their crisis characteristics require tax incentives to recover from the pandemics.

3. RESEARCH METHODS

This study used the mixed-methods approach with quantitative and qualitative methods simultaneously to answer the research question. A quantitative approach followed a closed-ended questionnaire to MSMEs to determine taxpayers' reasons for not applying tax incentives during the pandemic. The questionnaire consisted of five statements based on previous studies to increase validity, such as Apriliasari (2021); Khaeruddin, Nawawi, and Devi (2020); Rachmawati, and Ramayanti (2016); Sihaloho (2020). The pilot testing was adjusted before distributing the questionnaire to ease the response. Furthermore, a six-point Likert scale was applied for simpler and easier measurements of taxpayers' perceptions without a mean (zero point). The analysis was conducted by calculating scores based on the stages by Sugiyono (2019), as follows:

- Calculating the average answer based on the respondent's score using the following method:

Total scores for n respondents who Very Agree	= n x 6 = 6n
Total score for o respondents who Agree	= o x 5 = 5o
Total score for p respondents who Somewhat Agree	= p x 4 = 4p
Total score for q respondents who Somewhat Disagree	= q x 3 = 3q
Total scores for r respondents who Disagree	= r x 2 = 2r
<u>Total score for s respondents who Strongly Disagree</u>	<u>= s x 1 = 1s</u>
Total score	= Y

Description:

- n = number of respondents who Very Agree (SS)
- o = number of respondents who Agree (S)
- p = number of respondents who Somewhat Agree (AS)
- q = number of respondents who Somewhat Disagree (ATS)
- r = number of respondents who Disagree (TS)
- s = number of respondents who Strongly Disagree (STS)

- This followed the ideal score calculations for all items by:

N = Total respondents x highest scale points. The number of respondents who do not utilize the MSME tax incentive was 19 multiplied by 6 points, giving an ideal score of 114. Furthermore, the level of agreement was 67, meaning that the

Taxpayer Somewhat Agreed (AS) with the statement. The level of agreement was determined as follows:

ST	TS	AT	AS	S	ST
S	S	S	S	S	S
19	38	57	76	95	114

↓

67

The qualitative approach explained and strengthened the results using interviews with UMKM business actors and ABC tax office authorities to analyze the causes of low incentives utilization during the pandemic. The ABC Tax Office as the study object, provided an overview of the MSME tax incentives utilization using Central Jakarta as the business location. The MSMEs business has different activities based on the industry, trade, and individual services. Furthermore, semi-structured interviews were used with tax authorities on the incentives utilization based on questionnaires results and compliance data in 2020 and 2021.

The participants' selection was conducted using techniques based on Sugiyono (2019), stating that the purposive sampling technique uses data sources to assume that the respondents or participants have the expected knowledge. The results were analyzed by reducing irrelevant data and describing participants' opinions based on related themes. At the same time, interviews with the tax authorities were coded for the study's analysis and discussion. The participants included Account representatives who supervise taxpayers to fulfill tax obligations and utilize tax incentives and *Fungsional Penyuluh*, who provides taxpayers socialization related to tax regulations and MSME tax incentives. Table 2 shows the participant list.

Table 2 Participant List

No	Description	Participant Code
1	Head of Account Representative Forum at ABC Tax Office	KPP_1
2	Account Representative at ABC Tax Office	KPP_2
3	<i>Fungsional Penyuluh</i> at ABC Tax Office	KPP_3
4	MSMEs Taxpayer (Cellular Shop Owner)	WP_1
5	MSMEs Taxpayer (Rental Car Owner)	WP_2

4. ORGANIZATIONAL PROFILE

The Directorate General of Taxes (DGT) is an echelon I unit under the Ministry of Finance that formulates and implements policies and technical standardization in the taxation sector. Their vision is to collect State revenue using a tax administration that has efficiency, effectiveness, integrity, and fairness. This is achieved through its mission of formulating tax regulations that support Indonesia's economic growth, improving tax compliance through quality and standardized services, providing education, adequate supervision, and fair law enforcement, and developing digital-based core business processes through an adaptive and collaborative organizational culture and tax officials with integrity, professionalism, and motivation. The mission and vision are realized through 34 Regional Tax Offices, 4 Tax Service Offices for Large Taxpayers, 9 Special KPPs, 38 Middle Tax Offices, 301 Tax Offices, 204 Tax Counselling, and Consulting services, including the ABC Tax Office.

The ABC Tax Office is located in Central Jakarta with 34,294 registered and active taxpayers, including 1,514 MSMEs. Furthermore, it has several task divisions with respective duties and responsibilities, including the supervisory and tax education function that manages tax incentives.

An account representative conducts the supervisory process to ensure tax laws and regulations compliance through planning, determining tax potential and information control, analyzing, updating taxation data, supervision, and quality control of tax obligations compliance, advice and counseling, and administration of determination and issuance of legal products and tax control products. Meanwhile, the tax education function is conducted by *Fungsional Penyuluh* through direct tax counseling actively and passively, using audio, visual, contact centers, and third parties.

5. RESULTS AND DISCUSSION

5.1. REASONS FOR NOT APPLYING TAX INCENTIVES

The first stage involved the analysis of the interviews with MSME business actors. The results showed that 19 out of 54 respondents did not apply for the tax incentives. Furthermore, they answered five statements on reasons for not applying

and one question on other government assistance received during the pandemic, as shown in Table 3.

Table 3 The Reasons for Not applying Tax Incentives

No	Statement	Total Score	Maximum Score	Agreement Level
1	I am not aware of MSME tax incentives.	67	114	59%
2	The application process for the MSME tax incentives is difficult.	61	114	54%
3	The Covid-19 pandemic has not affected my MSME operations because of constant raw material prices.	54	114	47%
4	The Covid-19 pandemic has not caused employee redundancy on my MSMEs.	66	114	58%
5	The pandemic has not caused me to close my business.	64	114	56%
	Total	312	570	55%

A total of 59% of taxpayers agreed that they did not apply for tax incentives due to a lack of awareness. This indicated that ignorance of MSME tax incentive information affected the number of applications, as stated by WP_1 as follows:

"I was not aware of the MSME tax incentive because there was no official notification through an appeal letter from the tax office regarding the MSME tax incentive. In case the tax office would have sent a letter on the tax incentive, maybe I would have applied."

following the above statement, some MSMEs still rely on the tax office information. MSMEs' tax incentives utilization can be increased by sending notification letters to taxpayers on incentive information. This is in line with Apriliasari (2021), which reported that MSME taxpayers are less proactive in searching for related tax policies and are unaware of the tax incentives' existence.

The second reason why respondents do not apply for tax incentives is the complex administration process, shown by an agreement rate of 53%. The following interview excerpt of WP_2 supports this assertion.

"I searched for information on how to use tax incentives; I can say that the application for the use of tax incentives was difficult, including the reporting process. I could not overcome the difficulty because I do not have employees who handle the tax administration process."

the statement shows that taxpayers perceive the tax administration process of tax incentives as complicated, causing them not to apply. Additional information by WP_2 shows that MSMEs without employees or tax consultants to handle tax reporting are more likely not to apply for incentives. MSMEs consist of taxpayers from the micro, small and medium sectors that conduct simple operations and do everything manually. Before the pandemic, the taxpayers' final income tax deposit of 0.5% was received by e-billing and paid through mobile banking or bank. The process was simple compared to the tax incentive realization report, contributing to MSMEs' low utilization of tax incentives. According to Apriliasari (2021), the taxpayers cannot submit realization reports due to a lack of electronic media, internet connections, and complex reporting procedures.

The third reason respondents did not apply for tax incentives was that the pandemic did not cause employee redundancy, as shown by a low agreement rate of 58%. This shows that some MSMEs have non or fewer employees compared to larger-scale businesses. According to WP_1, the business was run by the family, hence no effects on staff during the pandemic. In comparison, WP_2 stated that the rental service business was run with driver-partners with a profit-sharing system and had no employees. The characteristics of the MSME sector, especially the micro and small sectors, is a lack of fewer employees.

The fourth reason why respondents did not apply for tax incentives was that MSMEs did not close their businesses during the pandemic, as shown by an agreement rate of 56%. It is supported by the statement of WP_2 that:

"My business has been closed since the beginning of the pandemic, even with the imposed government social restriction, I do not have a special location for my business, and I work from home."

according to WP_1, various factors led to business closure, including the government's policy to implement social restrictions and the business location in Central Jakarta's shopping center. Therefore, the business was closed until September 2020 due to a lack of buyers. More than 50% of the respondents supported that they did not apply for incentives because they were not required to close and operate normally. Even though the government required some specific business locations to close, the shopping centers were not affected.

The lowest agreement level at 47% showed that respondents disagreed that they did not apply for tax incentives because the pandemic did not increase operating expenses due to constant prices for raw materials, hence, did not affect their decision not to apply. Khaeruddin, Nawawi, and Devi (2020) stated that increased prices for raw materials reduced Msme's income in Bantar Jaya during the pandemic. The pandemic caused various impacts, including increased raw material prices and operational expenses. Furthermore, the interviews were conducted with MSME business actors in trade and services. Respondent WP_1 stated that cell phone prices from distributors did not increase as they are not a basic need for the community. The car rental business for WP_2 was not affected due to non-dependency on raw materials. This indicates businesses depending on raw materials, such as the essential goods and services trading industry, were the most affected by increased prices and operational expenses.

A total of 53% of taxpayers did not apply for incentives nor received other government assistance. There was a 20% to 50% decrease in turnover, affecting 32% of taxpayers. As a result, the MSMEs experienced a decline in turnover during the pandemic, they still did not apply for tax incentives; they still did not apply for tax incentives because MSMEs also considered the costs and benefits of utilizing MSME tax incentives.

Based on taxpayers' perception, MSMEs consider the ease of administration for incentives utilization. The results showed that the presumptive tax regime is not applied in the MSME tax incentive policy, indicating low utilization. This was different from studies on tax policy evaluation for MSMEs, namely Government Regulation No. 23 of 2018, applying a presumptive tax regime to improve compliance (Aditya, 2020; Nuryanah et al., 2021). Therefore, further analysis on the evaluation of tax incentive policies in the ABC Tax Office was conducted to strengthen the results of the causes of low utilization based on the taxpayer's perception.

5.2. EVALUATION OF TAX INCENTIVES POLICY IMPLEMENTATION AT THE ABC OFFICE

The MSME tax incentive utilization evaluation was based on the compliance data and interviews with the tax office at the ABC Tax Office. There are 1,514 active MSME taxpayers as of June 2021, mostly in wholesale and retail trade. Other businesses include individual services and the industrial sector. In general, taxpayers should remit 0.5% Final Income Tax of their monthly revenue based on

PP 23 of 2018. Table 4 shows the Final Income Tax 0.5% Payment in 2019, 2020, and 2021 before the pandemic in 2019. Those who paid Final Tax Income 0.5% on average monthly were 1,344 out of 1,514 active taxpayers at ABC Tax Office.

Table 4 Final Income Tax Payment

Month	Taxpayers Making Payment 0.5% Final Income Tax		
	2021	2020	2019
January	643	1.267	1.322
February	593	1.272	1.322
March	596	1.198	1.338
April	584	788	1.329
May	571	735	1.338
June	558	790	1.315
July	-	801	1.345
August	-	796	1.344
September	-	788	1.352
October	-	800	1.366
November	-	804	1.366
December	-	852	1.383

Source: ABC Tax Office

The 36% decrease of Indonesian MSME Taxpayers paying Final Tax Income of 0.5% started in April 2020, at the beginning of the pandemic in March 2020 compared to 2019. This decline continued to December 2020 and reached 45% from January to March 2021. Respondent KPP_2 commented on the deposit reduction of 0.5% Final Income Tax as follows:

"Some taxpayers were not active during the pandemic. Furthermore, there lacked supervision, hence, a reduction in taxpayers who pay 0.5% Final Tax."

This indicated that the reduced number of taxpayers paying the 0.5% Final Income Tax was because some applied for MSME tax incentives or were inactive during the pandemic. Furthermore, the MSME tax incentives utilization at the ABC Tax Office was analyzed.

The MSME Tax Incentives Utilization at ABC Tax Office

Table 5 shows the number of taxpayers who utilized MSME tax incentives in 2020 and 2021. A total of 43% of active MSME taxpayers utilized the incentives in 2020 and 57% select not to. Therefore, those who did not apply had to pay 0.5% Final Income Tax.

Table 5 Number of Taxpayers Utilizing MSME Tax Incentives

Month	2020		2021	
	Taxpayers Utilizing MSME Tax Incentives	Percentage	Taxpayers Utilizing MSME Tax Incentives	Percentage
January	-	-	193	13%
February	-	-	228	15%
March	-	-	236	16%
April	653	43%	242	16%
May	653	43%	248	16%
June	653	43%	241	16%
July	653	43%	-	-
August	653	43%	-	-
September	653	43%	-	-
October	653	43%	-	-
November	653	43%	-	-
December	653	43%	-	-
Number of MSME Taxpayers	1514			

Source: ABC Tax Office

Fewer taxpayers utilized tax incentives in 2021 than in 2020, with only 15% of MSMEs applying monthly. Therefore, the target number of MSME taxpayers was conveyed to tax authorities by the relevant vertical unit. The following are the interview excerpts by KPP_1:

“There is no target on utilization of MSME tax incentives provided by vertical units, but as an Account Representative, I still inform taxpayers to utilize the incentives and urge them to apply. Indeed, most of these taxpayers are not aware of the tax incentives.”

Based on this, the lack of targets at the tax office causes low utilization. Although the provision of tax incentives is self-assessment, it has a similar principle to fulfilling tax obligations before the pandemic. The incentives utilization target can increase the tax office performance and the MSME tax incentives utilization, impacting business recovery and tax revenue realization. Furthermore, taxpayer compliance during the pandemic was analyzed to prove that the low utilization was due to inactive MSMEs.

Taxpayers' Compliance During the Pandemic

Table 4 shows the fact that there is a decrease in the number of taxpayers who deposit 0.5% of Final Tax Income between 2020 and 2021. However, this decrease is not followed by the high utilization of MSME tax incentives.

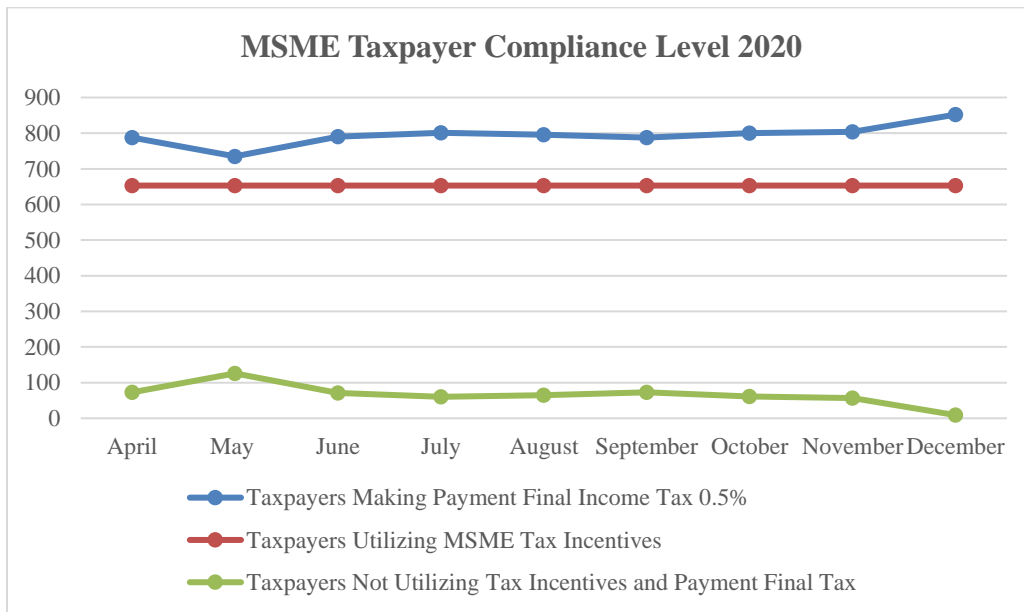


Figure 1 MSME Taxpayers Compliance Level

Figure 1 shows MSMEs' tax compliance level in 2020. More taxpayers selected not to utilize tax incentives and independently deposited 0.5% Final Tax Income than those who applied. Figure 2 shows a decrease in taxpayers paying 0.5% Final Income Tax in 2021.

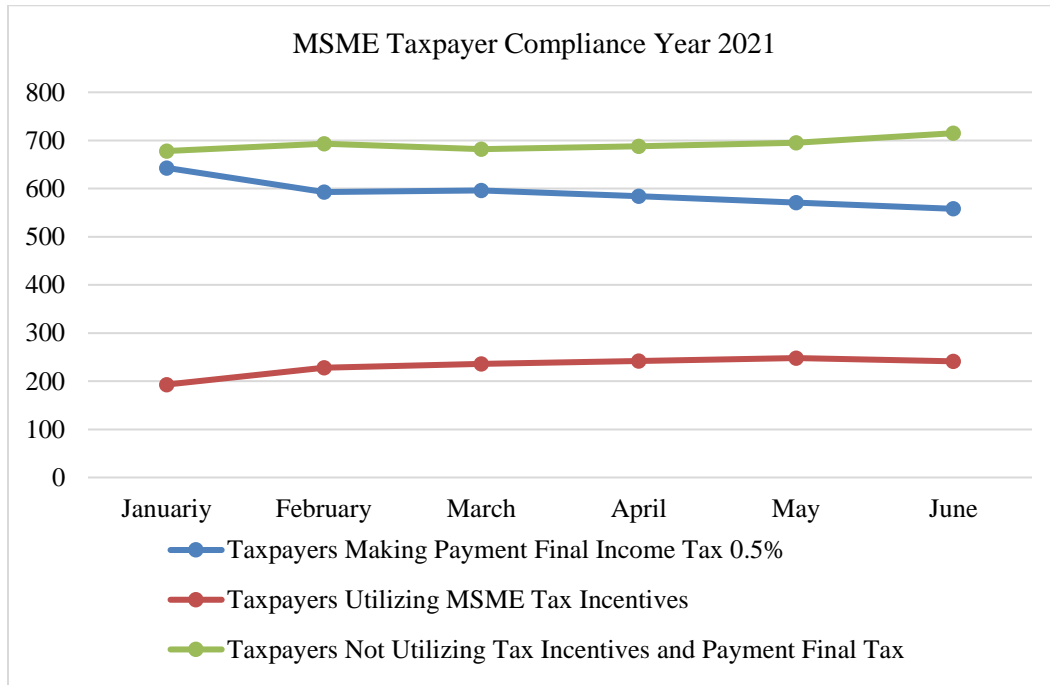


Figure 2 MSME Taxpayers Compliance Year 2021

Figure 2 shows that more taxpayers did not pay 0.5% of Final Tax Income and apply for incentives in 2021 than in 2020. This was confirmed to the tax authorities, as explained by KPP_2 below:

"In my opinion, there are two reasons why more people do not apply for incentives. First, MSMEs are not active during the pandemic, hence they are not able to apply. Second, due to complicated tax incentive reports, some prefer to pay the tax themselves, especially those with small payments, rather than following the complicated tax incentive administration process."

Figure 2 shows the first reason why Taxpayers' businesses were inactive during the pandemic, showing that 45% did not comply. However, there lacked a

conclusion that the taxpayers failed to comply from being inactive because the ABC Tax Office had no supervision.

The second reason for the low utilization, as stated by KPP_2, was the complex administrative process. The incentives realization reports are challenging, reducing the number of applications. The difficulty occurs while filling the report through excel using a code in each column and naming the excel form, that must be applied and uploaded in the e-reporting menu on djponline. This complicates the process for most MSME taxpayers who lack computer and technology knowledge. Therefore, further analysis was conducted on the incentives realization reports submitted every 20th of the month.

Compliance with Submission of MSME Tax Incentive Realization Reports at ABC Tax Office

Taxpayers applying for incentives must submit a realization report 20th of the month. Table 6 shows the compliance data.

Table 6 Compliance of MSME Tax Incentives Submission

Description	2020	2021
Taxpayers Who Use MSME Tax Incentives	5.877	1.388
Taxpayers Who Submit Realization Report	3.296	1.192
Submission of Realization Report (%)	56%	86%

A total of 56% of taxpayers using tax incentives submitted the report in 2020. Table 6 shows that the realization reporting rate was better in 2021 than in 2020, reaching 86%. Figure 3 shows the taxpayers who submitted the realization report in 2020, indicating a lower number of those submitting the reports than those using the incentives.

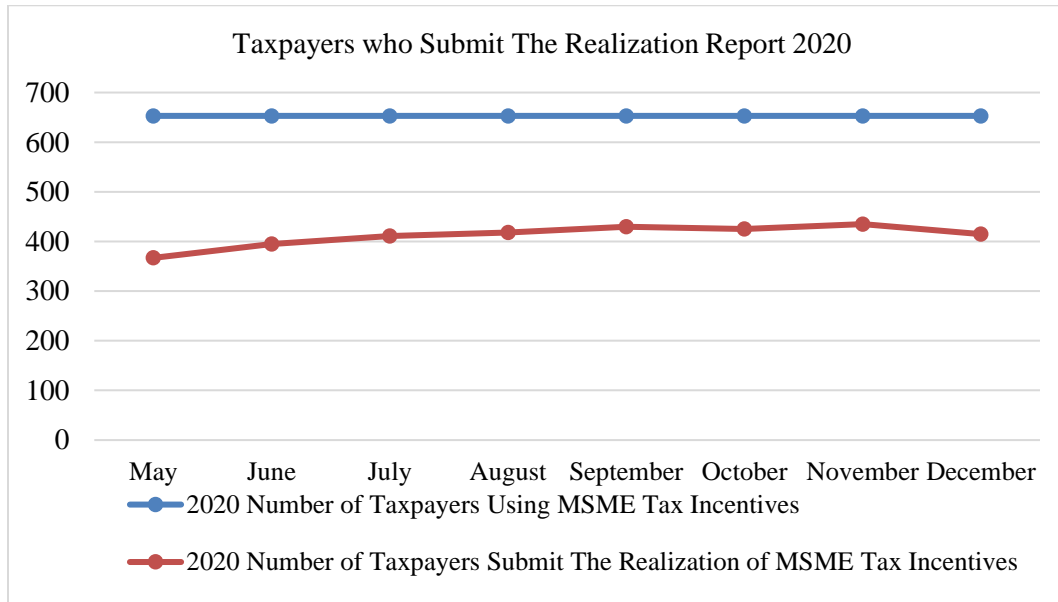


Figure 3 Taxpayers who Submit the Realization Report 2020

Respondent KPP_2 explained that the tax incentives realization report was challenging due to the filling code in the excel column and file naming caused by poor knowledge of computers or technology. However, the tax office provides consulting services to assist taxpayers to submit the realization report. The tax office forwards the problems they cannot solve through the online Lasis application managed by the DGT Head Office. The incentives realization reports are important for taxpayers and tax offices, hence, those who miss submissions must pay a Final Tax Income of 0.5%. On the other hand, low compliance affects the tax office's realization of tax revenue. The submission data showed that the taxpayers experienced difficulties and obstacles filling incentive realization reports on the e-reporting menu.

Optimizing the Tax Incentives Utilization at ABC Tax Office

Tax incentives are among the government efforts to protect taxpayers' businesses and survive the pandemic. This includes the spread of tax incentives information that all UMKM can utilize. Tables 4 and 5 show that the ABC Tax Office incentives utilization rate was 43% and 15% in 2020 and 2021, respectively. Therefore, an evaluation was conducted on the ABC Tax Office's efforts to

stimulate MSME tax incentives including, the socialization of MSME tax incentive policy and consulting services to taxpayers.

Tax socialization is the Directorate General of Taxes' effort to inform and educate taxpayers on applicable regulations and provisions useful when fulfilling their tax obligations. *Functional Penyuluh* is the ABC Tax Office officer who conducts tax counseling and stated that the ABC Tax Office conducted six tax incentives socialization sessions in 2020, and there will be eight more in 2021. The Directorate of Public Relations has provided the tax incentives socialization material, but the *Fungsional Penyuluh* made modifications to be more applicable. The statements by KPP_3 on the material and technical extension are as follows:

"The socialization material is based on the current tax incentive regulations. From the beginning, we tell participants how to register tax incentives at djponline and submit a report on the realization of the MSME tax incentive every 20th."

due to the ongoing pandemic, tax socialization occurs online using the zoom application and is different from the face-to-face counseling before the pandemic. The *Fungsional Penyuluh* explained that invitations were given via WhatsApp blast, requiring taxpayers to fill out a google form with their data and email addresses, and after receiving a zoom link by email. KPP_3 stated that 30 taxpayers per counseling session were mostly MSME, Limited Companies employees handling taxation, and consultants. Socialization notifications are also conveyed through the tax office's social media to attract more taxpayers or the general public, yet, there is still low attendance.

During tax socialization, the *Fungsional Penyuluh* had a question session for taxpayers regarding the tax incentive challenges and answered constraints on the realization of tax incentives report, including failed or error notifications during submission. The consulting services were carried out online directly from the tax office during the pandemic, making it easier for taxpayers. This shows that the ABC Tax Office has provided consulting services, such as helpdesk services via WhatsApp, to solve tax incentives challenges.

6. CONCLUSION AND DISCUSSION

This study shows that taxpayers' perception did not apply to tax incentives because they were unaware of MSME tax incentives, as demonstrated by a respondent's agreement rate of 58%. The application for tax incentives was complex, shown by a respondent's agreement rate of 53%. Furthermore, taxpayers did not experience employee redundancy due to the Covid-19 pandemic. As a result, they did not require incentives, as shown by a respondent's agreement rate of 57%. A total of 56% of taxpayers did not close their businesses during the pandemic. Several MSMEs do not know about tax incentives due to a lack of notification letters from tax offices. The lack of targets from unit verticals prevents the tax office from increasing the utilization of tax incentives. Furthermore, the attendance of taxpayers indicated low socialization because most do not understand the benefits. According to Apriliasari (2021), the incentives for socialization and tax services affect MSME taxpayers' compliance.

The difficulties in the administrative process cause low MSME tax incentives utilization. This study showed that the MSME tax incentives utilization rate at ABC Tax Office in 2020 was 43% and 15% in 2021. Their compliance level in submitting reports on the realization of tax incentives at ABC Tax Office in 2020 had a monthly average of 56% and 86% in 2021. Not all MSME taxpayers are familiar with the online administrative processes or the use of computer technology. According to Aprilisari (2021), many taxpayers do not understand the obligation to submit reports on the realization of tax incentives and assume they are provided automatically. Difficulties in the administrative process leading to the low utilization of tax incentives are due to the presumptive tax regime that did not apply in the MSME tax incentive policy. Aditya (2020) stated that simplifying the tax administration mechanism can increase the compliance of MSME taxpayers.

The MSMEs tax incentives utilization during the pandemic contributes to the Indonesian economy by 61%. ABC Tax Office authorities did not monitor the taxpayers who discontinued their operations during the pandemic. 45% of MSME taxpayers did not comply with paying the Final Tax Income and utilizing the MSME tax incentive during the pandemic. In contrast, the function of tax incentives is to restore and maintain MSMEs' business, an assertion supported by Cowling, Brown, & Racha (2020), which stated that the liquidity crisis caused by sales decline affects small businesses. The tax authorities should maximize efforts to utilize high tax incentives to help MSMEs recover and improve the Indonesian

economy. This is in line with Doern (2016), which stated that small businesses are susceptible to negative situations. Therefore, recovery for small businesses is as important as increasing customers and sales. Based on this, DGT must increase the utilization of MSME tax incentives by making relevant adjustments to the characteristics of MSMEs in Indonesia. This result follows what Smallbone, Deakins, and Kitching (2012) stated that the MSME sector is a small business that is vulnerable to crises. Still, MSME has resilience, flexibility, and the ability to adapt to pressure. However, the Government still needs to increase the use of tax incentives.

Implications

This study also provides practical implications that the MSME tax incentive policy does not use the presumptive tax regime approach applied in Government Regulation No. 23 of 2018 due to the complex administrative process that discourages tax incentives applications. It is one of the causes of the low utilization of MSME tax incentives. Although tax incentives during a pandemic are a popular policy, tax authorities still need the effort to optimize the utilization of MSME tax incentives. The result of this study provides the following practical policy recommendations.

Recommendation

The tax incentive policy was implemented to help MSMEs maintain their business, cope with the pandemic impacts, and enhance economic recovery. Therefore, the Directorate General of Taxes (DGT) should design a tax policy with a simple administrative process for MSMEs. This may include filling the realization tax incentives report without an excel form or a filling and naming code for convenience and increased participation. The Directorate General of Taxes should implement incentives utilization targets by MSMEs for the tax office in 2022 to increase utilization and support businesses.

The Tax Administration Core System Update (PSIAP) should also consider the MSME taxpayers' abilities and those without computers or technological knowledge to promote compliance. The Directorate General of Taxes should also cooperate with the MSME community to attract participation in tax socialization and with the Ministry of Cooperatives and SMEs to request MSMEs data that utilize

government assistance and tax incentives. The supervision of the taxpayers' business activities after receiving government aid has been effective.

This study shows that the MSME tax incentives utilization rate is still low, even though it helps overcome the impact of the pandemic and enhance the business recovery. The taxpayers should take advantage of the tax office services, such as consulting services by Account Representatives, education from *Fungsional Penyuluh*, and help desk services to improve tax literacy for easier fulfillment of tax obligations. The education provided by the tax office will help facilitate the understanding of rules, provisions, and incentives utilization methods for fulfilling other tax obligations. Therefore, the taxpayers should attend the socialization or request the tax office to organize this program for the sector. The Directorate General of Taxes needs to develop a modern tax system for digital tax reporting, payment, and calculations.

This study needs a completion by further exploration on the impact of MSME tax incentives utilization for business recovery during the pandemic and also objects expansion. This used data from 2020 to June 2021 on the MSME tax incentives utilization, hence, the period should be extended until December 2021 for a more comprehensive evaluation.

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