

THE IMPACT OF TAX REFORM ON SMALL AND MEDIUM ENTERPRISES

Loso Judijanto ^{*1}

IPOSS Jakarta, Indonesia
losojudijantobumn@gmail.com

Anggriani Husain

Manajemen SDM (Universitas Ichsan Gorontalo
anggrianihusain@gmail.com

Muhammad Syaiful

Universitas Sembilanbelas November Kolaka
muhammadsyaifuul@gmail.com

Abstract

Tax reform is a broad area of regulatory change, technology implementation, and incentive policies. The research in this investigation uses the literature research method. The results show that the impact of tax reform on Small and Medium Enterprises is dualistic. On the one hand, reforms that prioritize transparency, simplicity, and are supported by clear guidelines are well received by Small and Medium Enterprises, as they ease the reporting process and improve tax compliance. On the other hand, complex and confusing reforms create uncertainty and operational challenges, especially for Small and Medium Enterprises that are less prepared in terms of technology and infrastructure. Therefore, technological readiness and supporting infrastructure play an important role in determining the effectiveness of tax reform. Furthermore, the need for support from the government, both in the form of tax incentives and education, greatly affects the success of Small and Medium Enterprises' adaptation to tax reform. Incentives such as tax subsidies or rebates help to reduce the financial burden, while training and education improve the understanding of Small and Medium Enterprises of the new rules. Thus, to achieve effective and equitable tax reform, a multifaceted approach is required involving improved regulations, increased access to technology, and ongoing support from the government.

Keywords: Tax Reform, Small and Medium Enterprises.

Introduction

Tax system reform is one of the strategic policies often implemented by the government in order to increase state revenue and encourage economic growth. In various countries, including Indonesia, improvements to taxation regulations are carried out in order to build a fairer and more efficient system. (Gamage et al., 2020).

¹ Correspondence author.

However, the impact of decisions related to taxation is not always felt equally by all sectors of the economy, especially Small and Medium Enterprises (SMEs) which sometimes have different characteristics and constraints compared to large companies (Alshira'h & Abdul Abdul, 2020). (Alshira'h & Abdul-Jabbar, 2020)..

SMEs (Small and Medium Enterprises) are small to medium-sized businesses in terms of employees, assets and turnover. The definition varies depending on the country or region. In Indonesia, SMEs are regulated according to certain criteria regarding assets or sales set by the government. These businesses cover various fields such as trade, services, agriculture and manufacturing. SMEs are recognized as a sector that is easily accessible to the wider community including those with limited capital, as well as flexible in its operations (Brixiová et al., 2020)..

The role of SMEs in the economy is enormous. SMEs are the backbone of the economies of many countries including Indonesia. First, SMEs contribute to employment, helping to reduce the unemployment rate. Second, SMEs promote local economic growth as they generally use domestic raw materials and form business networks with other local businesses. (Rukundo, 2020). Third, SMEs also contribute to innovation and diversification of products or services, which catalyze market dynamics and improve the competitiveness of the national economy (Bakos et al., 2020). (Bakos et al., 2020). Therefore, SME development is one of the important strategies in strengthening the economy and improving people's lives.

SMEs are one of the backbones of the national economy, contributing around 60% of the Gross Domestic Product and providing jobs for around 97% of the workforce in the non-agricultural sector. With the number of business actors spread throughout the country, SMEs make a major contribution to economic stability and growth. (Mohamad et al., 2021). However, tax reforms often pose obstacles, especially for SMEs. One of the main challenges is the ability of SMEs to understand and fulfill changes in tax rules. Increased complexity and administrative burden can be difficult for SMEs, especially those with limited human resources and financial capital. This has the potential to hamper business operations and reduce the competitiveness of SMEs in the market. (Edy et al., 2021).

In addition, poorly targeted tax policies can increase the financial burden for SMEs. For example, an increase in tax rates or a reduction in tax incentives can reduce the profits earned by SMEs. As a result, the ability of SMEs to expand, invest in innovation, or save working capital may be negatively affected. Without adequate support, this has the potential to hamper the growth of SMEs and adversely affect the national economy as a whole (Ramdani, 2020).

On the other hand, well-designed tax reform can be a catalyst for SME development. Tax deductions for SMEs, tax incentives for investment, and simplified tax compliance procedures are examples of policies that have the potential to boost SME growth. Effective policy implementation can increase the profitability and

competitiveness of SMEs, as well as stimulate innovation and new job creation (Chien et al., 2021). (Chien et al., 2021).

Tax reform policies also often aim to broaden the tax base and improve taxpayer compliance. In the context of small and medium enterprises, this means encouraging business formality and bridging the gap between the formal and informal sectors. Through various incentives and support, small and medium enterprises operating in the informal sector can be encouraged to become part of an organized and transparent tax system. (Czerwonka & Jaworski, 2021).. By doing so, small and medium-sized enterprises can gain better access to financial services, government programs, and broader markets.

However, to realize this goal, an inclusive and participatory policy approach is required. The government needs to involve small and medium enterprises in the policy formulation process to ensure that the tax reform is truly relevant and accommodates the needs of small and medium enterprises. Active participation from small and medium enterprises can help the government understand the problems faced in the field and design more effective policies. (Gui et al., 2020).

It is also important to conduct comprehensive socialization related to changes in taxation rules to small and medium enterprises. The government can work with business associations, educational institutions, and the media to provide education and information needed by small and medium enterprises. Thus, small and medium enterprises can be better prepared and able to adapt to changes in the new tax regulations. In addition, technical support and assistance from the government or related institutions is also an important factor in the success of tax reform for small and medium-sized enterprises (Effendi et al., 2022).. The provision of tax consulting services, financial management training, and access to digital technology can help small and medium enterprises to carry out their tax obligations more effectively and efficiently. Continuous monitoring and evaluation of the impact of tax reforms on small and medium enterprises is also required. Accurate data and information on the condition and performance of small and medium enterprises post-reform will be an important basis for the government to make policy adjustments if necessary. This will ensure that the implemented tax policy remains relevant and does not harm small and medium enterprises. (Bikefe et al., 2020).

In conclusion, tax revision has great potential to influence the development of small and medium enterprises in Indonesia. With well-targeted policies and adequate support, tax revisions can be an effective tool in promoting the growth of small and medium enterprises and increasing their contribution to the national economy. Therefore, the government needs to ensure that the revision measures taken consider various aspects of its impact on small and medium enterprises and involve active participation from all stakeholders.

With a comprehensive and inclusive approach, tax revision can be one of the main pillars in strengthening the small and medium enterprise sector and creating a healthier and more sustainable business ecosystem in Indonesia. (Gallemore & Jacob, 2020).

This study aims to further examine the impact of the tax revision on small and medium-sized enterprises, including the benefits and losses caused by the tax revision for small and medium-sized enterprises.

Research Methods

The study conducted in this research uses the literature research method, which is an approach taken to collect, review, and analyze information that is already available in various written sources. The main purpose of this method is to gain an in-depth understanding of a particular topic through critical analysis of relevant literature. (Barlian, 2018); (Suprayogo & Tobroni, 2003); (Suparlan, 2014).

Results and Discussion

Definition of SMEs and their Characteristics

Small and Medium Enterprises (SMEs) play a vital role in Indonesia's local and national economy. SMEs not only provide jobs and essential services to local communities, but also support innovation and sustainability of local economies with their flexibility and proximity to customers. (Thukral, 2021). The definition of SMEs varies by country, often depending on the policies of the government or relevant agencies that determine criteria based on annual turnover, number of employees, and total assets. In Indonesia, Law No. 20/2008 states that small businesses have a net worth of more than IDR 50 million to a maximum of IDR 500 million, excluding the land and building where the business is located. Medium-sized enterprises have a net worth of more than Rp500 million to a maximum of Rp10 billion. (Cheong et al., 2020).

The characteristics of SMEs include several key aspects such as operational flexibility, proximity to customers, and a simpler organizational structure. SMEs often have fewer employees, making it easier to make quick decisions and adapt to market changes. (Varga, 2021). In addition, SMEs tend to have more personalized relationships with customers, allowing them to meet customer needs more effectively and provide better service. The simpler organizational structure compared to larger firms also facilitates innovation and creativity, as new ideas can be more easily implemented without complex bureaucracy (Bani-Khalid et al., 2021). (Bani-Khalid et al., 2022)..

The role of SMEs in the local economy is significant as they are often the backbone of job creation. In many regions, SMEs provide a wide range of goods and services needed by the local community, thereby reducing dependence on goods or services from outside the region. (Skare et al., 2023).. This not only helps boost the local economy by maintaining the circulation of money in the community, but also

strengthens the economic resilience of the region. In addition, SMEs are often pioneers in creating products that reflect local identity and culture, which in turn can enhance tourism attraction and creative industry development (Rupeika-Apoga et al., 2023). (Rupeika-Apoga et al., 2022)..

In the national economy, SMEs play an important role in contributing to Gross Domestic Product (GDP) and exports. In Indonesia, SMEs account for more than 60% of GDP and provide more than 90% of employment in the non-agricultural sector, demonstrating their importance in supporting economic growth and poverty alleviation. (Karjalainen et al., 2023).. In addition, SMEs also play an important function in innovation as well as economic diversification, allowing countries to reduce dependence on certain sectors. With government policies that support the development of SMEs, such as access to finance, skills training, and tax incentives, SMEs can continue to grow and improve the competitiveness of the national economy in the global market (Kochanova et al., 2023). (Kochanova et al., 2020)..

As such, SMEs play a vital role in both local and national economies. SMEs not only provide employment and essential services to local communities, but also support innovation and sustainability of local economies with their characteristic flexibility and proximity to customers. In the national context, SMEs make a significant contribution to Gross Domestic Product (GDP) and exports, playing an important function in poverty alleviation and economic diversification. Support from the government, such as access to financing and skills training, is essential to optimize the potential of SMEs in strengthening economic competitiveness in the era of globalization.

Tax Reform

Tax reform is an effort made by the government to make changes or adjustments in a country's tax collection system. This reform can include various aspects such as changes in tax rates, tax bases, withdrawal mechanisms, and tax administration. (Adhikary et al., 2021).. The main objective of tax reform is to create a more equitable, efficient, and effective tax system. This is done to ensure that tax collection can support economic growth, reduce tax fraud and evasion, and increase taxpayer compliance (Jia et al., 2020). (Jia et al., 2020).

The objectives of Tax Reform include several key aspects, including: increasing government revenue so that it can effectively fund public expenditures, such as infrastructure, education, and health. In addition, tax reform aims to distribute the tax burden more fairly among different income groups, thereby reducing economic disparities. (Kaberia & Muathe, 2021). Reforms also aim to simplify the tax system, thereby easing administration and increasing tax compliance. These efforts are often injected with digital innovations to modernize the tax collection system, which in turn contributes to the stability and sustainability of state finances. (Rahmayanti & Prihatiningtias, 2020)..

The Reformed Tax Rates approach is one of the schemes often applied in tax reform to achieve certain economic and social goals. Often, it involves adjusting the tax rates applicable to various tax categories, such as income tax, corporate tax, and Value Added Tax (VAT). (LE et al., 2021). For example, governments may lower corporate tax rates to encourage investment and create jobs, while increasing tax rates for high-income categories to distribute the tax burden more evenly. The introduction or elimination of some tax exemptions or deductions can also be part of this scheme to simplify the tax system. (Le et al., 2020).

Tax base broadening is a reform aimed at increasing the types of income or assets subject to tax, such as taxing the informal sector. It aims to increase state revenue without raising tax rates. Often accompanied by steps to digitize the tax system and law enforcement to increase taxpayer compliance. (Kassa, 2021).

Tax administration is also the focus of reforms through modernizing the online reporting system and providing tax obligation services that facilitate taxpayers. The government also often trains tax officials and digitizes tax processes in an effort to increase voluntary compliance. (Skare et al., 2023).

Tax incentives such as temporary exemptions, deductions, or tax credits are often given to strategic sectors such as renewable energy or research and development. The aim is to encourage economic activity that is important for long-term growth and sustainability of the economy (Eton et al., 2021). (Eton et al., 2021).

Reforming the tax system is a complex effort that involves various aspects to improve the efficiency, fairness, and effectiveness of taxation in a country. One of the schemes often used in tax reform includes changing the tax rate, expanding the objects subject to tax, improving the administrative process of tax imposition and collection, and providing certain fiscal incentives. (Durst & Gerstlberger, 2020). Each reform measure has a specific purpose but the overall aim is to increase state revenue, distribute the burden of paying taxes more fairly, and support sustainable economic growth. If implemented properly, tax reforms are expected to contribute significantly to the country's financial stability and economic development (Jiang et al., 2023). (Jiang et al., 2023).

Positive Impact of Tax Reform on SMEs

A carefully designed tax system reform can bring a variety of positive benefits to small and medium-sized enterprises (SMEs) in the country. First, a reduction in the rates charged to small-scale businesses can directly reduce their financial burden (Park et al., 2020). With lower tax rates, SMEs are ready to allocate more funds to increase business productivity, such as purchasing new equipment, expanding their capacity to produce goods, or developing new products. This tax reduction is also considered to be able to

increase the profitability of the business, thus strengthening the financial resilience of SMEs in the face of various economic challenges. (Park et al., 2020).

In addition, administrative process reforms that lead to digitization and simplification of tax procedures are helpful for SMEs. An easier and more transparent tax reporting and remittance system reduces the time and cost spent by SMEs to fulfill their tax obligations. This allows small business owners to focus more on their core business activities. Moreover, with a more automated and user-friendly system, the risk of errors in tax reporting can also be minimized, thereby reducing the possibility of fines and sanctions (Ratnasingam et al., 2015). (Ratnasingam et al., 2020).

Tax reforms that provide special incentives for SMEs will also encourage innovation and expansion. Tax incentives such as tax breaks for investment or tax deductions for research and development (R&D) activities can improve the competitiveness of SMEs in the market (Song et al., 2020). (Song et al., 2020). This is also considered to motivate SMEs to pursue growth and expand their business areas, both domestically and internationally. Ultimately, the positive impact of this tax reform will not only be felt by SMEs, but also contribute significantly to the economy as a whole, for example through the creation of new jobs and increased national competitiveness (Christensen et al., 2020). (Christensen et al., 2022)..

Tax reform can also increase the level of tax compliance for MSMEs. Higher compliance usually results from a tax system that taxpayers perceive as fair and transparent. When MSMEs feel that their tax burden is appropriate and the process to fulfill it is less burdensome, they are more likely to be compliant in reporting and paying taxes. This increased level of compliance can increase state revenue without increasing the overall burden on MSMEs, creating a win-win situation for both the government and the business world. (Aderemi et al., 2020)..

In addition, tax reforms that provide MSMEs with training or professional support in tax management can empower them to better understand and manage their tax obligations. The government can organize training programs to improve the capacity of small and medium-sized enterprises in accounting and tax management, including providing access to affordable tax consultants. (Tharmini & Lakshan, 2021). This not only ensures they are compliant with applicable tax regulations, but also improves the quality of financial management in their businesses, which in turn supports business sustainability and growth. (Setyoko & Kurniasih, 2022)..

Overall, pro-MSME tax reform can be an important precursor to the development of the sector. With lower taxes, simpler processes, incentives for innovation, and support in tax compliance, MSMEs can grow faster and contribute more to the national economy. In this era of globalization, the ability of MSMEs to compete in the international market can also be enhanced through tax reforms that provide room for small and medium enterprises to grow and compete in a wider arena. Thus,

strong and growing MSMEs will not only be the backbone of the national economy but also able to improve the welfare of society as a whole.

Negative Impact of Tax Reform on SMEs

The implementation of a tax system that does not take into account the characteristics and capacities of small and medium enterprises can have far-reaching negative impacts. For example, while the original intention of the reform was to simplify administration, the transformation phase may create confusion for low-scale economic actors. (RAMLI et al., 2022). They may be forced to allocate additional resources to understand the reformed rules, which means tremendous time and cost must be separated from business development. This unexpected situation tends to lower the productivity of small and medium enterprises, disrupt capital flows, and ultimately hinder growth (Markle et al., 2020). (Markle et al., 2020).

In addition, tax reforms that raise rates or tighten the conditions for tax deductions that small and medium-sized enterprises have previously taken advantage of will only add to their financial burden. Raising rates means taxpayers will have to pay more to the state, reducing the remaining profits that can be reinvested into the business. Especially for small and medium enterprises operating with narrow profit margins, the impact of a rate hike could be significant for business continuity. It could potentially force some businesses to raise selling prices, which risks reducing competitiveness in the market (Gamidullaeva et al., 2014). (Gamidullaeva et al., 2020).

In addition, if the reforms are not accompanied by the provision of adequate guidance or support, many small and medium-sized enterprises may struggle to ensure compliance with the new regulations. Lack of understanding of the reformed tax rules can increase the risk of reporting errors and lead to administrative penalties. For businesses that are already struggling to survive, the additional cost of penalties can be a heavy burden. This will certainly worsen financial conditions and potentially force some businesses to cease operations. (Jaelani et al., 2023)..

Finally, tax reforms that do not take into account the resilience and economic conditions of small and medium enterprises have the potential to widen the gap between small-scale enterprises and large companies. Large companies have a better capacity to adjust to regulatory changes thanks to more extensive financial and human resources. However, small businesses may not have the same flexibility. This imbalance has the potential to create a climate of unbalanced business competition, where small businesses are increasingly left behind and find it difficult to grow. If not well thought out, tax reforms that are supposed to boost the economy could potentially worsen the business environment for small businesses.

Factors Affecting the Impact of Tax Reforms

The impact of tax reform on the economy and small and medium-sized enterprises (SMEs) depends on various aspects. One of the main factors is the complexity and rigor of the new regulations. Complicated and less transparent tax reform designs can create uncertainty and confusion among taxpayers, especially SME entrepreneurs who may lack the resources to adjust to these changes. (Rum & KUSUMAWARDANI, 2020). Rules without adequate guidance or training will be difficult for SMEs to understand and implement, which could have negative implications on their tax compliance and day-to-day operations. (Diez et al., 2021).

Another factor that influences the impact of tax reform is the level of technological readiness and supporting infrastructure. In the digital era, many tax reforms lead to online reporting and payment. For SMEs not yet technologically ready, this can be a big challenge (Musimenta, 2020). Inadequate technological infrastructure and unstable internet access can complicate the tax reporting and payment process, ultimately resulting in delays and the risk of fines. Therefore, technological readiness and infrastructure support are crucial to ensure that all businesses are able to follow this reform properly (Husin & Haron, 2020).

Furthermore, government support and incentives are also crucial factors in determining the impact of tax reforms. Reforms that are supported by incentives for SMEs such as tax rebates, tax debt write-offs, or tax subsidy assistance can help reduce the financial burden on SMEs. In addition, training and education programs are also crucial to help SMEs understand and adapt to the new tax rules. Providing these incentives and support will help mitigate any negative impacts that may arise from tax reform and encourage better compliance from taxpayers. (Rand & Tarp, 2020).

Finally, macroeconomic conditions also play a significant role in determining the impact of tax reform. If the economy is growing and stable, businesses tend to be better able to adapt to tax policy changes. However, in a sluggish or unstable economy, tax reform may add more burden and pressure to SMEs that are already struggling to survive. Therefore, the timing of reform implementation also needs to be considered. Tax reform implementation should be done when the economy is in good condition, so that it can be accepted and implemented more smoothly by all affected parties.

Conclusion

The conclusion from the review of the impact of tax normalization on small and medium-sized enterprises (SMEs) indicates that tax normalization has a significant effect, positive or negative, depending on how the policy is implemented and related factors. Normalization that is detailed with simplicity and transparency in mind and supported by clear instructions will be more easily accepted by SMEs. Conversely, a complicated and confusing policy may create uncertainty and reporting difficulties that hinder SME operations.

In addition, technological readiness and supporting facilities play an important role in determining the impact of tax normalization. SMEs that have access to adequate technology and facilities are more likely to be able to adapt to changes in the tax system. Therefore, investment in technology as well as improved access and quality of facilities are crucial to ensure that SMEs are not left behind in the adaptation process to tax normalization.

Support through tax incentives and education from the government also shows its importance to help SMEs adapt. Policies with incentives such as subsidies or tax rebates can help SMEs reduce their financial burden and encourage better compliance. In addition, providing training and education to SMEs can improve their understanding of the new rules so that normalization can take place more effectively. Therefore, successful tax normalization requires a multi-faceted approach, involving improved regulations, technological tools, and government support.

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