The effect of tax harmonization law and tax sanctions on MSME taxpayer compliance in Jambi

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**Abstract**

This study examines the effect of the Tax Harmonization Law and Tax Sanctions on MSME Taxpayer Compliance in Jambi City. The research was conducted during the omicron variant of the covid-19 pandemic that hit in 2022. The study was tested on the MSME population in Jambi City with a sample of MSMEs in various sectors totaling 50 participants. Data were collected by distributed questionnaires and analyzed by Warp PLS 7.0. The results showed that the Tax Harmonization Law and Tax Sanctions had a significant positive effect on MSME Taxpayer Compliance in Jambi City. This research also contributes theoretically and practically and can be implemented for stakeholders and can be developed for further research.

**Introduction**

The Micro, Small and Medium Enterprises (MSME) activity sector has a potential role and plays an important role in advancing economic activities both at the regional and national levels (Hernando et al., 2022). Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Kementerian KUKM) in 2021, the number of MSMEs in Indonesia has reached 64.2 million with a contribution to the gross domestic product (GDP) of 61.07 percent or IDR 8,573.89 trillion. MSMEs are able to absorb 97 percent of the total workforce and are able to collect up to 60.4 percent of total investment in Indonesia. Based on these data, Indonesia has the potential for a strong national economic base because the number of MSMEs is very large and the absorption capacity of the workforce is very large. In addition, MSMEs are also part of the Indonesian economy which is independent and has great potential to improve people's welfare in terms of the three roles of MSMEs in the Indonesian economy which include a means of equalizing the economic level of the poor, a means of alleviating poverty and a means of earning foreign exchange for the State.

The dynamic development of MSMEs has been hampered by the increase in cases of the Omicron variant of Covid-19 in the first half of 2022 in almost all parts of the world. The government responded quickly to this issue, in this case the Minister of Finance of the Republic of Indonesia. The government has extended a series of incentives until the first semester of 2022. This is aimed at encouraging the recovery of the national economy, in particular some of the sectors that were hardest hit. One of them is the MSME sector.

The support obtained by the MSME sector from incentives provided by the government comes from the Tax Harmonization Law (UU HPP). Where, the government provides facilities for
imposing final income tax rates which are only 0.5% of gross income and a 50% reduction in tariffs based on article 31E. Most recently, the HPP Law regulates the facility for limiting non-taxable gross income for MSMEs of up to IDR 500 million a year and the application of the final rate of Value Added Tax of 1%, 2%, or 3% for MSMEs with the status of a Taxable Entrepreneur (PKP).

Through this facility, MSMEs with a turnover of up to IDR 500 million in a year do not need to pay final income tax at a rate of 0.5%. Tax calculation is only done on turnover above IDR 500 million. According to Rahmadi and Wahyudi (2022) and Setiadi (2022), the UU HPP discusses six regulatory scopes, namely General Provisions and Tax Procedures (KUP), Value Added Tax (PPN), Income Tax (PPh), Voluntary Disclosure Program (PPS), Carbon Tax, and Excise.

The presence of the Tax Harmonization Law (UU HPP) and the tax incentive stimulus were welcomed by taxpayers, especially SMEs (Rahmadi & Wahyudi, 2022). This strategy is given by the government to facilitate tax obligations for taxpayers who can take advantage of it. However, taxpayer compliance, both corporate and individual, is still at 77.63% (Kemenkeu.go.id, 2021). This means that there are still around 22.37% who do not comply with the implementation of their tax obligations. This is suspected to be due to the limited space for MSME actors, both people and goods. This situation is very worrying because 60% of the Indonesian economy is contributed by MSMEs (Kemenkeu.go.id, 2021).

The non-compliance of the taxpayer is certainly suspected by the gross turnover which is above IDR 500 million. Faridzi et al. (2022) states that the non-compliance of the taxpayer can lead to tax avoidance and tax evasion. Lack of knowledge and understanding of taxes can also be one source of why taxpayers do not carry out their tax obligations. Although almost KPP receives MSME tax revenue increases, but not all taxpayers report and deposit it. An increase in the number of taxpayers cannot guarantee an increase in the number of MSME tax revenues (Aryani, 2022). So, it takes firmness in the form of sanctions.

The massive development and growth of the MSME sector has initiated the government to seek to increase tax revenues from MSME actors by means of extensification (Astri & Panjaitan, 2018; Lazuardini et al., 2018). This is expected to increase tax revenue, expand the number of taxpayers and secure tax revenue targets (Astri & Panjaitan, 2018; Yusro & Kiswanto, 2014).

The urgency (priority) of this research lies in the new incentives from the government for MSME actors related to the Tax Harmonization Law (UU HPP). Where, the government provides facilities for imposing final income tax rates which are only 0.5% of gross income and a 50% reduction in tariffs based on article 31E. In addition, the HPP Law regulates the facility for limiting non-taxable gross income for MSMEs of up to IDR 500 million a year as well as the application of the final rate of Value Added Tax of 1%, 2%, or 3% for MSMEs with the status of a Taxable Entrepreneur (PKP). Thus, through this facility, MSME actors whose turnover is up to IDR 500 million in a year do not need to pay final income tax at a rate of 0.5%. As a result, MSME actors will be willing to be able to report and deposit their tax obligations through a self-assessment system. This is the novelty in this research.

Literature Review
This research was carried out considering the situation of the Omicron variant of the Covid-19 pandemic which is still hitting almost all corners of the world as of the first semester of 2022 and has an impact on MSME actors due to the limited inflow of people and goods. According to a survey by the Asian Development Bank (ADB, 2021) as many as 48.6% of MSME players in Indonesia as of September 16, 2020, temporarily closed due to the ongoing pandemic conditions. This was accompanied by a decrease in domestic demand by 30.5% (Kemenkeu.go.id, 2021). So that the government’s role is needed in providing fiscal relaxation to MSME actors in the form of the National Economic Recovery program by allocating a budget of IDR 1.08 trillion for MSME tax incentives. It is hoped that it can restore economic conditions for MSME actors in Indonesia and maintain economic stability (Irawan, 2021; Rahmadi & Wahyudi, 2022; Setiadi, 2022).
Theory of Planned Behavior
The theory of planned behavior proposed by Ajzen (1991) that individual behavior arises because there is an intention to behave. The explanation of this theory is based on the behavior of a person in a social environment that is influenced by certain factors that arise from certain reasons and come from a planned way (Cahyani & Noviari, 2019). According to Ajzen (1991), Fitria and Supriyono (2019), Mustikasari (2007), and Sulistiyan and Harwiki (2016) revealed that behavioral intentions arise due to the following three factors: First, behavioral beliefs, which is a belief from each individual regarding the outcome of a behavior. Second, normative beliefs is a belief related to the normative expectations of others and has a high motivation to fulfill those normative expectations. Third, control beliefs, namely a belief related to the existence of something that inhibits or supports an action that will be displayed and its perceived power regarding the magnitude of something that inhibits or supports the action. Ghouri et al. (2016) argues that this theory studies human behavior primarily related to one's interests, providing a framework for studying individual attitudes and behaviors and predicting the types of behavior and individual interests.

Taxpayer Compliance
Taxpayer compliance is defined as an attitude of being obedient and submissive and obedient to their tax obligations and tax rights (Ananda et al., 2015; Indrawan & Binekas, 2018; Nurmantu, 2005). Complying with the fulfillment of tax obligations is basically an action that must be taken by taxpayers in fulfilling their obligations under the applicable tax laws and regulations (Lazuardini et al., 2018). Compliance itself is divided into two types, namely: formal compliance and material compliance (Lazuardini et al., 2018). According to Lazuardini et al. (2018), formal compliance is defined as compliance by taxpayers carrying out their obligations in accordance with the applicable Taxation Law. Meanwhile, material compliance is defined as the fulfillment of the provisions derived from the Taxation Law related to the content and spirit that must be carried out by every taxpayer.

Tax Harmonization Law (UU HPP)
The UU HPP consists of nine chapters and has six regulatory scopes, including general provisions and taxation procedures (KUP), income tax (PPh), value added tax (PPN), voluntary disclosure program (PPI), carbon tax, and excise tax (Setiadi, 2022). The purpose of this UU HPP is to provide support to MSE actors and to create justice between MSE actors who are subject to Final Income Tax and Individual Taxpayers who are subject to Income Tax based on general provisions, the government regulates the amount of gross turnover that is not taxed in one tax year IDR 500 million, as an additional incentive for UMK Individual Taxpayers who are subject to Final Income Tax (Kemenkeu.go.id, 2021).

This tax-free gross circulation facility of IDR 500 million can be utilized by individual MSME taxpayers who use the Government Regulation number 23 of 2018 final PPh scheme in fulfilling their income tax obligations. If the taxpayer in question turns out to have a gross turnover of less than IDR 500 million in 1 year, then the individual MSME taxpayer does not need to pay PPh. If the taxpayer has a turnover of more than IDR 500 million, then for every turnover above IDR 500 million, the final income tax for SMEs is 0.5% (Detik Finance, 2022). Under the current provisions, the final income tax for SMEs is charged on the entire gross turnover so that the final income tax that must be paid is IDR 6 million. With this simulation, it appears that individual MSME taxpayers get a final income tax relief of IDR 2.5 million in a year thanks to the new regulation in the UU HPP (DDTC News, 2021).

Tax Sanctions
Tax sanctions based on the law consist of two, namely; First, administrative sanctions. Second, criminal sanctions (Lazuardini et al., 2018). Tax sanctions are defined by Cahyani and Noviari
Research Method

This research is using a quantitative method approach that will test the research hypotheses by collecting sources or data (Hartono, 2011). This study examines the effect of the strategy adopted
by the Minister of Finance of the Republic of Indonesia in providing tax incentives (UU HPP) and the firmness of tax sanctions on Micro, Small and Medium Enterprises (MSMEs) on tax compliance.

This type of research data is primary data. Where, the data was obtained directly by the researcher from the first hand or the respondent directly (Sekaran & Bougie, 2019). Respondents were then asked for their perceptions of the questionnaires to be distributed in the form of variables used in this research. Meanwhile, this research uses research data sources from primary data. Namely, MSMEs in Jambi City. Where, data were obtained from respondents who answered research questionnaires that had been distributed by researchers.

Data collection methods are an integral part of research (Sekaran & Bougie, 2018). This study collects data using a survey method in the form of a questionnaire. Questionnaires were distributed using a hand delivery system technique (submitted directly to respondents). The purpose of using this technique is to create an emotional bond with the respondent (Hernando et al., 2022). So that it has an impact on minimizing the low response rate. Then also use the google form if the number is not sufficient for regression in this study. Meanwhile, the sample is part of a population (Sekaran and Bougie, 2018; Sekaran and Bougie, 2019). The population in this research is all MSME business actors in Jambi City. Meanwhile, the sample in this research is MSME actors operating in various sectors in Jambi City with predetermined criteria and passing the validity and reliability test. The total sample in this study amounted to 50 MSME entrepreneurs in the city of Jambi.

The independent variable is an independent variable which means a variable that affects both positively and negatively on other variables (Sekaran & Bougie, 2018). The independent variables of this study are the incentive strategy of the HPP Law and the firmness of tax sanctions. Meanwhile, the dependent variable is the dependent variable which means a variable that is influenced by the independent variable and becomes the focus of researchers on its variability (Sekaran & Bougie, 2018). The dependent variable in this research is MSME taxpayer compliance in Jambi City. All of the above variables were tested with a Likert scale of 1-5. One to strongly disagree and five to strongly agree. The question and statement indicators for this research questionnaire use a combination of several previous studies related to the relationship between the Tax Harmonization Law, Tax Sanctions and MSME Taxpayer Compliance.

Instrument Design

The design of this research instrument uses instruments from several previous researches which are combined (Hernando, 2023). And it has been modified based on the results of the pilot test in the FGD with the research team, academics from the accounting department, academics from the psychology department and representatives of MSME business practitioners in Jambi City. The results of the pilot test from the FGD were used as guidelines for the research team to improve the questionnaire according to the input from the FGD participants before being distributed to respondents (Syofyan & Hernando, 2021).

Hypotheses Test

This study uses a structural equation modeling - partial least square (SEM-PLS) analysis tool in testing the research hypothesis. The SEM-PLS software used in this research is Warp-PLS 7.0. SEM-PLS is very often used by researchers because of its benefits in testing the structure of the model. This multivariate analysis technique has an exploratory nature of research and has two constructs, namely formative and reflective (Hair et al., 2013). The purpose of using SEM-PLS multivariate analysis is because it can maximize the r-squared value of the criterion variable which can be explained by predictive variables and is able to minimize the error value (Sholihin & Ratmono, 2021).
Validity Test
Validity test is a test to find out how a research instrument measures what should be measured (Hartono, 2011). Validity testing can be divided into two tests, namely; convergent validity testing and discriminant validity testing. The rule of thumb for convergent validity is when values from different instruments are then measured in the same construct having a high correlation. There are several criteria in determining convergent validity as explained by (Sholihin & Ratmono, 2021) including the value of outer loading must be greater than 0.7 and the value of communality must be greater than 0.5 and the average variance extracted (AVE) value must be greater than 0.5. On the other hand, the rule of thumb of discriminant validity testing is obtained when values of different instruments are then measured in uncorrelated constructs resulting in uncorrelated values (Hartono, 2011; Sholihin & Ratmono, 2021). The rule of thumb for discriminant validity testing in this study uses the root square of AVE which must be greater than the correlation of latent variables and can also use cross loading which must be greater than 0.7 in one variable (Hartono, 2011).

Reliability Test
Reliability test is a test that shows how a level of consistency and research instruments or the stability of measuring instruments is in measuring a construct or concept (Hartono, 2011). This reliability test is needed to be able to find out how consistent the results of the measurement of the construct or research concept are. The rule of thumb reliability test can use Cronbach’s alpha where the value of Cronbach’s alpha must be greater than 0.7. In addition to Cronbach’s alpha value, the next rule of thumb is related to reliability testing, namely composite reliability with the composite reliability value having to be greater than 0.7 (Hartono, 2011).

Results and Discussion
Respondents in this study were all MSME business actors in Jambi City who were engaged in various sectors. The reason for choosing MSME business actors in various sectors is that the Tax Harmonization Law does not see and focus on only one sector. However, it is broader in all sectors within the scope of MSMEs. Then, data was collected after distributing questionnaires to MSME actors in Jambi City. The technique of distributing questionnaires so far is still being carried out by researchers by means of a hand delivery system where, this technique is able to create emotional and deep bonds to respondents. Then this technique also becomes a better reference if you only distribute it using other methods such as google forms, email, post and so on. Because respondents who still do not understand the topic related to the Tax Harmonization Law, they can directly ask the researcher when filling out the questionnaire.

The next stage, respondents will be selected for analysis to the next stage after passing the validity and reliability testing stage. However, before entering the stage of testing the validity and reliability, it is necessary to determine the number of samples or respondents or participants in this study. According to Hair et al. (2013), the determination of the sample based on the number of path lanes must be multiplied by ten per path lane. In this research, there are two path lanes. Thus, the minimum total sample in this study was 20 respondents. Then, the researcher tried to use the next sample size determination approach with Cohen’s (1992) approach. In this approach, the minimum number of samples is calculated based on how many hypothesis lines will be adjusted to the desired level of significance and adjusted to the desired R² value. If in this study there are two hypothetical lines. Thus, the minimum number of samples can be determined by looking at the desired level of significance. In a sense, if you want 1% significance with R² 0.50 means the minimum sample is 47. Then if you want a significance level of 1% with R² 0.75 means the minimum sample is 38. Likewise, if you want 5% significance with an R² value of 0.50 The minimum sample is 33 and if you want 5% significance with an R² value of 0.75, the minimum sample in this study must be 26.
The minimum sample criteria in Cohen's (1992) approach are not that much different from that of Hair et al. (2013). Thus, the researchers took the initiative to be able to collect at least 50-70 MSME actors in Jambi City. In the sense of getting a high response rate from participants, the researchers increased the number of samples in this study to 100 SMEs in Jambi City. This is for the reason that it is predicted that 70 questionnaires will be returned from the respondents. Of course, the response from participants is quite high, because this stage has not been subtracted from the validity and reliability testing stages which may delete some sample data that is not feasible for further testing. As well as anticipating the number of standards based on the criteria of Hair, et al. (2013) and Cohen (1992). The table of Cohen's (1992) approach can be seen Table 1.

Table 1. Determination of the Number of Samples Using the Cohen Approach (1992)

<table>
<thead>
<tr>
<th>Maximum Number of Arrows Pointing at a Construct</th>
<th>Significance Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1% Min R-square</td>
</tr>
<tr>
<td>2</td>
<td>0,10</td>
</tr>
<tr>
<td>3</td>
<td>0,75</td>
</tr>
<tr>
<td>4</td>
<td>0,38</td>
</tr>
<tr>
<td>5</td>
<td>0,17</td>
</tr>
<tr>
<td>6</td>
<td>0,29</td>
</tr>
<tr>
<td>7</td>
<td>0,46</td>
</tr>
<tr>
<td>8</td>
<td>0,56</td>
</tr>
<tr>
<td>9</td>
<td>0,69</td>
</tr>
<tr>
<td>10</td>
<td>0,79</td>
</tr>
</tbody>
</table>

Sources: Cohen (1992)

Based on Table 1, the researcher will try to distribute questionnaires to 100 respondents of MSME entrepreneurs in various sectors in Jambi City with the hope of returning 70 questionnaires. This is so that the distribution process can be said to have a high response rate. After that, the validity and reliability will be tested using the structural equation modeling – partial least square (SEM-PLS) analysis tool. Where, this statistical test tool is able to test the structure of the model and is able to test data that has exploratory research properties and has two constructs, namely formative and reflective and can maximize the r-squared value of the criterion variable which can be explained by predictive variables and is able to minimize the error value.

Validity testing will see whether the data is said to be convergently valid or discriminatingly valid. With the rule of thumb convergent validity, the outer loading value must be greater than 0.7 and the communality value must be greater than 0.5 and the average variance extracted (AVE) value must be greater than 0.5. Furthermore, the rule of thumb for discriminant validity testing in this study uses the root square of AVE which must be greater than the correlation of latent variables and can also use cross loading which must be greater than 0.7 in one variable (Hartono, 2011). The next test is that the data must be reliable with the rule of thumb. The reliability test can use Cronbach’s alpha where the value of Cronbach’s alpha must be greater than 0.7. In addition to Cronbach’s alpha value, the next rule of thumb is related to reliability testing, namely composite reliability with the composite reliability value having to be greater than 0.7 (Hartono, 2011).

The data collected has passed the convergent validity test as many as 50 MSME actors with convergent validity criteria including outer loading, communality and AVE in accordance with the requirements and the 50 MSME entrepreneurs also passed the discriminant validity test with the root requirements of the AVE and cross loading according to the standard. Likewise, these 50 MSME entrepreneurs have also passed the reliability test with the criteria of Cronbach alpha and composite reliability. This is because the distribution of questionnaires is done by hand delivery system where this technique is able to create good results. Because, entrepreneurs can ask the
researcher directly the intent and purpose of the questions and statements of the questionnaire. Although there were 20 MSME entrepreneurs who did not pass the test out of a total of 70 returned questionnaires. The 20 respondents were because they were busy in managing their business so they neglected to fill out the research questionnaire. Table 2 shows the results of the validity and reliability of this study.

<table>
<thead>
<tr>
<th>Table 2. Validity and Reliability</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Average Variance Extracted</td>
</tr>
<tr>
<td>Cronbach Alpha</td>
</tr>
<tr>
<td>Composite reliability</td>
</tr>
<tr>
<td>Sources: Data Processed, 2023</td>
</tr>
</tbody>
</table>

Hypothesis testing in this study hypothesizes two direct effects. The first test is the effect of the Tax Harmonization Law (UU HPP) on MSME Taxpayer Compliance in Jambi City. The test results in this study support the first hypothesis with a coefficient of 0.592 (p<0.01) and R2 of 0.35. This means that the first hypothesis in this study is significantly supported. The second test is the effect of tax sanctions on MSME taxpayer compliance in Jambi City. The test results in this study support the second hypothesis with a coefficient value of 0.465 (p<0.01) and R2 of 0.22. This means that the second hypothesis in this study is significantly supported. The results of hypothesis testing are detailed in Table 3.

<table>
<thead>
<tr>
<th>Table 3. Hypotheses Test Results</th>
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<tbody>
<tr>
<td>Path</td>
</tr>
<tr>
<td>X1-Y</td>
</tr>
<tr>
<td>X2-Y</td>
</tr>
<tr>
<td>Sources: Data Processed, 2023</td>
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Discussion

The effect of tax harmonization law on taxpayers compliance

Based on the findings of the researchers, data was obtained that the research respondents, namely MSME entrepreneur taxpayers, did not understand and know about the Tax Harmonization Law. From a survey conducted by researchers, only a few MSME entrepreneurs know what the Tax Harmonization Law is. Even so, it does not detail how the application of tariffs is applied and to whom it is imposed as well as the subject and object of the tax itself. On the other hand, MSME entrepreneurs who did not know about the Tax Harmonization Law even asked the lot of questions to researchers. This happened because the process of distributing the questionnaires was carried out directly by the researchers to the research respondents. Thus, in addition to distributing research questionnaires, researchers also provided explanations to research respondents regarding what the Tax Harmonization Law was. Even in the process of filling out the questionnaire. Because the research questionnaire consists of not only questions but also statements. Some respondents who know about the Tax Harmonization Law know this comes from tax socialization on social media and from tax officials who carry out tax literacy. The rest have never heard of the Tax Harmonization Law.

The results in this study indicate that the hypothesis expressed in this study is supported. These results are of course also in line with several other studies conducted in 2022 such as Rahayu and Suaidah (2022), Purbowati (2022), Safitri et al. (2022) Suryadi et al. (2022). Whereas, the research respondents, namely MSME entrepreneurs who received socialization regarding the Tax Harmonization Law, would obey and submit to their tax obligations. In addition, the enactment of
the Tax Harmonization Law will help MSME entrepreneurs with the presence of tax incentives provided by the government to MSME entrepreneurs during the Covid 19 pandemic which was still ongoing while the research was being conducted, namely in 2022. The incentives provided not only reduce tariffs but even eliminate the imposition of taxes for MSME entrepreneurs with the terms and conditions that apply.

**The effect of tax sanction on taxpayer compliance**

Regarding the imposition of sanctions, of course, it will have an impact on a person's psychology. Someone will try to avoid himself from imposing sanctions which can hinder the activities he is doing. Likewise in the world of taxation, where individual and corporate taxpayers will object if they are subject to sanctions. Thus, avoiding the imposition of sanctions is an effort that must be made because if it does not it will have an impact on its business operations and even stricter sanctions. This study also shows the support of the results to the stated hypothesis. That tax sanctions are able to affect MSME taxpayer compliance. With sanctions imposed, of course, MSME entrepreneurs will immediately make deposits and payments to the tax office regarding their tax obligations. With firm sanctions, entrepreneurs will be more aware of when and how much to deposit their tax obligations. This result is certainly in line with some recent research by Luayyi et al. (2022), Masudah et al. (2022), Ristanti et al. (2022), and Soge et al. (2022).

**Conclusion**

This study shows the results that MSME entrepreneurs in Jambi City will obey and comply with their tax obligations when they have received tax socialization. The implementation of the Tax Harmonization Law by the government plays an important role in increasing the awareness of MSME taxpayers in Jambi City. Incentives given by the government related to taxation are very beneficial for MSME entrepreneurs in Jambi City during this COVID-19 pandemic. Likewise, the application of the tax sanctions given will increase the awareness of every MSME taxpayer in Jambi City to succeed in State Revenue.

The implications of this research for stakeholders such as the government can help increase the target of tax revenue. Meanwhile, the implications for MSME entrepreneur stakeholders can help ease their tax obligations when their income does not exceed the target set by the Tax Harmonization Law. Implications for future researchers can be used as a guideline for developing research in the following year. The government needs to be more active in providing tax socialization to every taxpayer. Where not all MSME taxpayers can receive information related to taxation. Because they are busy in managing their business.

**References**


The effect of tax harmonization law and tax sanctions …
