Single Tariff and Tax Compliance of Micro Small and Medium Enterprises in Indonesia (Case Study in DKI Jakarta Province)

Muhammad Yudhy Guztaman*, Sartika Djamaluddin

Faculty of Economics and Business, University of Indonesia, Depok, West Java, Indonesia
*Corresponding author: yudhy.guztaman@gmail.com

Abstract

To increase tax ratio and tax basis, Government release Peraturan Pemerintah (PP) No. 46 Tahun 2013. Using single tariff (1%), the regulation gives easiness to tax payer (Micro, Small and Medium Enterprises) in order to fulfill their tax obligation. After five years implementation, Government revised the policy. Peraturan Pemerintah No. 23 Tahun 2018 not only decrease the tariff (0,5%) but also regulate time limit using the tariff. Furthermore, the policy gives tax payers a freedom to choose using special (single) tariff or regular one (progressive tariff) but they could not use single tariff if they already use progressive tariff (vice versa). This paper will show the changes in MSME taxpayers (corporate and personal tax payer) behavior in DKI Jakarta Province responding the regulation.

Keywords: Tax Compliance, Micro, Small and Medium Enterprise, Single Tariff

Introduction

The posture of the State Budget in 2018 showed that the overall National Expenditures of Rp. 2,220,7 trillion, consisted of the Central Government Expenditures of Rp. 1,454,5 trillion and Regional Transfer and Village Funds worth Rp. 766,2 trillion while the overall National Revenues of Rp. 1.894,7 trillion, consisted of the Tax Revenue of Rp. 1.618,1 trillion, Non-Tax State Revenue (PNBP) of Rp. 275,4 trillion and Grants of Rp. 1,2 trillion (Nota Keuangan, 2018). The data shows that tax is the main income of National Revenues in the State Budget of 2018 with total revenue reached 85,5% of the overall National Revenues.

The condition above directly impacts to the revenue target year by year. According to the Performance Report of the Directorate General of Taxes, the realization of tax revenue from 2010 to 2017 never reached the target. The highest tax revenue collected in 2011 was 97,15% of the demanded revenue target. Unfortunately, the tax revenue in the next years tends to be decreased. One of the factors that cause the difficulty in realizing the tax revenue target is the lack of people awareness in paying taxes. The tax ratio in a country indicates the quality of the people awareness in paying taxes. The Indonesian tax ratio is considerably lower than the other countries. The Indonesian tax ratio was 13,3% in 2008 and then decreased in 2009 to 11,06%. In 2010, the tax ratio declined again to 10,54% but one year later increased to 11,6%. In 2012, tax ratio increased to 11,38%.

To increase the tax ratio and widen the tax base, the government facilitates the individual or legal entity taxpayers that run the micro, small, and medium enterprises (UMKM) in counting, paying, and reporting taxation of owed income tax (PPh). The facility and the special treatment are given by considering a large amount of potential tax from UMKM sectors. According to the data from Statistics Indonesia (BPS), UMKM sectors grow more rapidly from 2001 to 2011 than the medium-big industries sectors (BPS, 2017). The average growth of employer of the medium-big industries from 2001 to 2011 was 0,63%. It was lower than the growth of employer of UMKM that reach 3,12%. From the growth of entrepreneur aspect, medium-big industries reached 1.2%. Meanwhile, the UMKM sectors reached 3,03%.

Unfortunately, the rapid growth of micro, small, and medium enterprises (UMKM) from the aspect of an entrepreneur, the employer, export rate, and the contribution to Gross Domestic Income (GDI) is not in line with the growth of the tax awareness from the entrepreneurs. It is

indicated from the number of UMKM entrepreneurs who report their annual tax return form (SPT). Based on the data from the Directorate General of Taxes (DJP), the percentage of tax discipline from the UMKM taxpayer is still under 10%. Some policies have been taken by the government to increase the tax discipline from UMKM taxpayer. One of them is to give facility and special treatment to the taxpayers from this sector by applying single tariff. The application of single tariff of 1% is issued in the Government Regulation No. 46/2013 on the Income Tax of the Income from Business that Got or Gained by Taxpayers who Own Certain Gross Circulation.

Beside the 1% of single tariff, there are several issues that are regulated in the Government Regulation No. 46/ 2013, namely, the limitation of taxed income, the character and calculation of the amount of tax every month, the criteria of taxed subject who is not allowed to use Government Regulation No. 46/ 2013, and the system of collecting tax for the taxpayer that has been demanded final tax before the regulation was applied. After five years, this regulation has been applied, the government has revised it by applying Government Regulation No. 23/2018. One of the main points in this regulation is the lowering of the tariff from 1% to 0,5%. Some other important points that have been issued in Government regulation No. 46/2018 are still applied in Government Regulation No. 23/2018. Besides, two new points are issued in this regulation, namely the option for taxpayers to choose whether to use the tariff as applied in Government Regulation No. 23/2018 or not and the time limit of using the single tariff of 0,5% by taxpayers.

The government hopes that the application of single tariff for UMKM taxpayer will help in counting, paying, and reporting the tax return so that the selectivity of this regulation that will be measured from the level of tax discipline from UMKM sector will be increased. Based on that background, the research problem that will be proposed in this research is whether the lowering of the tariff (the application of single tariff) can increase the tax compliance of UMKM Taxpayer in Indonesia especially in DKI Jakarta Province?

There are two objectives of this research. They are; *first*, to know the effect of the application of single tariff on the rate of tax discipline from micro, small, and medium enterprises (UMKM) taxpayer. *Second*, to know the factors that impact on the rate of tax discipline from micro, small, and medium enterprises (UMKM) taxpayers. The result of this research is in form of profiling of UMKM taxpayers that becomes a recommendation to the government in socializing, collecting, and controlling the tax discipline from micro, small, and medium enterprises (UMKM) taxpayer. This research focused on analyzing the effect of the lowering of taxpayer tariff from 2012 to 2017 toward the rate of tax discipline from UMKM taxpayer in DKI Jakarta Province. The income limitation that is used refers to the Government Regulation No. 46/2018 that is Rp. 4,800,000,000 (four billion and eight hundred million rupiahs). While the data used in this research are the report of UMKM taxpayer in DKI Jakarta Province from 2012 to 2017.

Literature Review

The Effect of Policy Factor (Tax rate) on Tax Compliance of MSME Taxpayer

There were already many researches showing the correlation between tax rate change and the compliance of the Taxpayers. Based on the research conducted by (James and Alley 2002), the decision to be obedient or disobedient to the tax payment particularly the Individual Taxpayer was determined by the incentive given. The result of the research showed that individuals responded on the incentive in deciding whether to pay or avoid tax. Low tax rate would cause the increase of compliance, yet if the tax rate, sanction issue, or the probability of examination was high, the tax compliance would be low.

The high tax rate would certainly encourage the Taxpayers to try decreasing the amount of their tax debt through the acts of tax evasion or smuggle. On the other hand, the State required tax revenue according to the target set to implement the government's functions. Laffer (2004) stated an explanation related to the tax rate set by the government and the tax revenue which could be realized. The analysis of Laffer explained 2 (two) ways of the government to acquire tax revenue namely by collecting high tax from a small fraction of population (tax with high tariff with the

small/limited tax basis) or by applying low tariff on a great fraction of the population (tax with low tariff with great/wide tax basis).

Braithware and Wirth (2001) stated that the correlation between compliance and tax reduction as the Compliance-Tax Rate Spiral. It was related to the theory stated by the economic analysts that the lowering (reduction) of tax rate was influential on the increase of the Taxpayers' compliance, and tax compliance required lowering (reduction) of the upcoming tax rate. Another research has been done by Friedland, Maital and Rutenberg (1987). The result showed the incomes reported were highly elastic about the tax rate

H1: Policy Factor (tax rate) has a positive effect and significant on tax compliance of micro, small and medium taxpayers.

The Effect of Tax Penalty on Tax Compliance of MSME Taxpayer

The tax compliance could be improved through the pressure to the Taxpayers to make them not committing any violations or illegal acts in their business to evade tax. The act of sanction issue could be carried out if the Taxpayers were caught committing tax violations through a good and integrated tax administration system and a good qualified tax examination. The issue of tax sanction in the form of Notice of Tax Collection (STP) issue was one of the forms of tax enforcement to the Taxpayers to avoid such incident to occur again in the future. Doran (2009) stated that STP not only supported law compliance, but also determined the behavioral standards applied by the laws on the Taxpayers. STP could differentiate the obedient Taxpayers from the disobedient ones. Alm, Jeckson and McKee (1992) in their research revealed that the incomes reported by the Taxpayers were increased when the sanction (penalty) given and the probability of the implemented examination were high. Friedland, Maital and Rutenberg (1987) proved that fine/sanction became an effective prevention compared to the tax examination about the effort of encouraging the Taxpayers to report the received income.

Based on the economic deterrence theory, deterrent effect was what would stimulate the willingness and awareness of the taxpayers. This condition would provide understanding about the meaning and aim of paying tax given by the State. The understanding would be acquired once the Taxpayers possessed sufficient knowledge and education related to the tax knowledge. Thus, the government's role was highly required in implementing tax socializations and trainings consistently and continuously to the Taxpayers. Jackson and Milliron (1986) in their research revealed that tax knowledge has positive relationship to taxpayer behavior. Hotaling and Arnold (1981) showed that taxpayer are more comply if they learn how the taxation system works.

H2: Internal factor (tax penalty) has a positive effect and significant on tax compliance of micro, small and medium taxpayers.

The Effect of Type of Taxpayer and Age of Register on Tax Compliance of MSME Taxpayer

Nabati & Mahi (2018) and Castro & Scartascini showed age of register has significant and positive value related to tax compliance of MSME Taxpayer. The research has been done by Alumunia and Lopez-Rodriguez (2018) showed that corporate taxpayers are more likely to be disobedient due to transaction complexity.

H3: External Factors (type of taxpayer and age of register) have a positive effect and significant on tax compliance of micro, small and medium taxpayers.
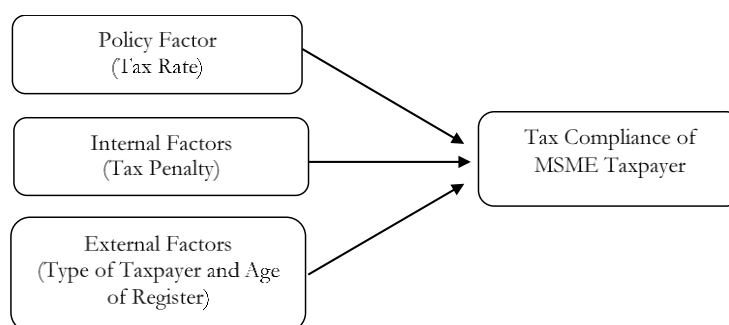
Research Methods

Samples

The samples used in this study were the total of micro, small and medium taxpayer (individual and corporate taxpayer) in DKI Jakarta Province that report their annual income tax (SPT Tahunan PPh) from 2012 to 2017. There are 396.731 observations from 2012 until 2017 that consist of 98.262 categorized as corporate taxpayers and 298.469 categorized as individual taxpayers.

Variables and Measurements

The dependent variable in this study is tax compliance of micro, small and medium taxpayer. Where, tax compliance of taxpayers was the dummy variable with the value of 1 and 0. The value of 1 described that the Taxpayers reported their income, while the value of 0 described that the Taxpayers did not report their income. The report was a report of Annual Income Tax (PPh) Notice (SPT) of UMKM Taxpayers based on the report of the Taxable Year. Independent variables in this research consist of tax rate, tax penalty, type of taxpayer and type of business. Tax rate was the dummy variable with the value of 1 and 0. The value of 1 described that the taxpayers used the new tariff (PP 46), while the value of 0 described that the taxpayers used tariff before PP 46 implemented. Tax penalty (Notice of Tax Collection/STP) was the amount of the fine paid by UMKM taxpayers due to the late report of the annual SPT or not reporting the annual SPT.

Type of taxpayers was the dummy variable with the value of 1 and 0. The value of 1 described that the taxpayers are categorized as individual taxpayer, while the value of 0 described that the taxpayers are categorized as corporate taxpayer. In this study, the age is calculated since individual or corporate taxpayers has been registered as taxpayer until the tax year ends every year. Based on the explanation above, the researcher illustrated the correlation between the variables above and the tax compliance as follows:

Figure 1. Conceptual Framework

Data Testing Technique

In this study, researcher use probit panel data. This method is based on the normal distribution probability function. The interpretation is done by looking at the sign and significant variables. Coefficient value interpret using marginal effect (Safitra, 2018) and classical assumption test is not needed in this method (Widarjono, 2013; Ekananda, 2016).
To test our hypotheses, we used statistical model below:

$$\text{Kepatuhan Pajak UMKM} = \beta_0 + \beta_1\, D\_Tarif\_Pajak_t + \beta_2\, Denda_{it} + \beta_3\, D\_Jenis\_WP_t + \beta_4\, Usia\_WP_{it}$$

Results and Discussion

Based on the calculations using probit panel data, the coefficient values are as follows:

Table 1. Regression Coefficient Value

Variable's Name	Result Value
D_Tarif Pajak	0,71 ***
Denda	-0,000000425
D_Jenis_Wajib_Pajak	-0,573**
Usia_WP	0,00072
Constanta	6,87

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 1. show that *D_Tarif Pajak* and *D_Jenis_Wajib_Pajak* have significant value but *Denda* and *Usia_WP* have no significant value. The correlation between variables can be summarized through the table below:

Table 2. Marginal Effect (Independent and Dependent Variable)

Variabel	Delta-Method			P > | z |
	dy/dx	Std. Err.	z	
D_Tarif Pajak	0,0001541	0,0000406	3,79	0,000
Denda	-0,000000000096	0,00000000035	-0,28	0,782
D_Jenis_Wajib_Pajak	-0,0001288	0,0000711	-1,81	0,070
Usia_WP	0,000000163	0,0000021	0,08	0,937

Hypothesis Testing Results 1

The results of testing the first hypothesis (H1) state that tax rate (*D_Tarif Pajak*) has significant and positive relation to tax compliance of micro, small and medium taxpayer. Probability of MSME taxpayers comply their tax obligation after PP No. 46/2013 implemented is higher by 0,0001541 compared before regulation exist. The results of this study were in line with the research conducted by Devoz (2014) which showed that reducing tax rate can increase tax compliance. The research has been done by Azrinawati Mohd Remali, Abdul Jalil dan 'Aliyah Nur Satar Abdul Satar (2018) showed the same result where a reduction in tax rate could increase tax compliance. Low tax rates make taxpayers have sufficient fund for others activities that can support the development and growth their own business.

Hypothesis Testing Results 2

The results of testing the second hypothesis (H2) state that tax penalty (*D_Denda*) has no significant and negatif relation to tax compliance. Probability of MSME Taxpayers comply their tax obligation after tax penalty is given to them lower by 0,0000000000955 compared before tax penalty were given. This result proves that MSME taxpayers require special treatment. The results of this study were in line with the research conducted by Swistak (2016) which showed that tax penalties are important and still needed to increase tax compliance, but tax penalties must be designed to prevent and motivate tax payers rather than being used to suppress taxpayers or increase additional tax income.

Hypothesis Testing Results 3

The results of testing the third hypothesis (H3) state that type of taxpayer (*D_Jenis_Wajib_Pajak*) has significant and negative relation to tax compliance. Probability the compliance of individual taxpayers for MSME taxpayer are lower by 0,0001288 compared to corporate taxpayer. The results of this study contradict to the research conducted by Alumunia and Lopez-Rodriguez (2018) which showed the results that corporate taxpayers are more likely to be disobedient due to transaction complexity.

Age of Registered (*Usia_WP*) has positive and no significant relation. This variable showed that increasing age of registered will increase the probability of MSME tax compliance by 0,000000163. The results of this study were in line with the research conducted by Nabati dan Mahi (2018) which showed that the age of registered has impact to tax compliance.

Conclusions, Limitations, and Suggestions

Conclusions

Based on the test results that the researcher has conducted, it can be concluded as follows: *First*, tax rate (*D_Tarif Pajak*) and type of taxpayer (*D_Jenis_Wajib_Pajak*) have significant relation to tax compliance of micro, small and medium taxpayer. The result of this study indicates that

implementation of PP No. 46/2013 has positive correlation to tax compliance even in small value. But on the other hand, corporate taxpayer for MSME sector more comply than individual taxpayer.

Second, tax penalty (*Denda*) and Age of Register (*Usia_WP*) have no significant value to tax compliance of micro, small and medium taxpayer. This result of this study indicates that increasing in tax penalty will reduce tax compliance of MSME taxpayers but increasing age of register will increase tax compliance of MSME taxpayers.

Limitations

This research was carried out with various limitations that could influence the results of the study. The limitations of this study are as follows: [1] This study will focus on examining the effect of the implementation PP No. 46 of 2013 on the compliance of MSME Taxpayer, [2] MSME Taxpayer category in this study are all taxpayer (individual and corporate taxpayer) that make tax payment using Final Income Tax (PPh Final - 411128) with a code 420 from 2013 until 2017, [3] Tax compliance used in this study is formal compliance as regulated in UU No. 6 of 1993 concerning General Provisions and Tax Procedures, [3] This research was only conducted in DKI Jakarta Province that it cannot describe the situation as whole at the national level.

Suggestions

Based on the result, the researcher gives suggestions that Government should pay more attention to individual taxpayer especially for new individual taxpayer.

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