

Ethical Dilemmas in Tax Planning for MSME Taxpayers in Facing Core Tax

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Abstract

This study examines the ethical dilemmas faced by Micro, Small, and Medium Enterprises (MSMEs) in tax planning ahead of the Core Tax Administration System (Core Tax) implementation. The study employs a qualitative case study approach on MSMEs in Samarinda, revealing a significant fear among business owners about their classification as Taxable Entrepreneurs (PKP), particularly when their annual revenues are close to or surpass IDR 4.8 billion. This fear prompts strategies like delaying revenue reporting, distributing revenue among family members, or omitting sales. Prospect Theory explains this behavior, showing MSME owners prioritize avoiding potential losses, such as losing customers from price hikes due to VAT, over the benefits of tax compliance. The real-time monitoring by Core Tax intensifies this dilemma, which is further complicated by limited resources and simple administrative practices that complicate adherence to stricter tax regulations. The study also reveals dissatisfaction with tax policies, particularly the PKP threshold, which is perceived as unfair and disconnected from business realities. The research emphasizes the need for fairer tax policies, enhanced support for MSMEs, and greater government transparency to build trust and improve compliance.

Keywords: Ethical Dilemma, Tax Planning, Core Tax, MSMEs, Prospect Theory, Taxable Entrepreneur.

INTRODUCTION

The digital economy has posed significant challenges to traditional tax systems, compelling many countries to explore new taxation methods to ensure effective and fair revenue collection. Several nations have responded to these challenges by implementing or proposing digital service taxes (DSTs), often integrating them into existing Value Added Tax (VAT) or Goods and Services Tax (GST) frameworks (Alfandia, 2020; Mpofu, 2022). While DSTs have the potential to boost tax revenues and foster economic growth, concerns remain regarding their design and implementation, including potential conflicts with international tax treaties and European law (Geringer, 2021; Rodríguez, 2021).

The challenges posed by digitalization in Indonesia have spurred tax system innovation, leading to the implementation of Core Tax in 2025. This system aims to prevent the issuance of defective tax invoices, known as Faktur Pajak 000, by requiring the inclusion of the buyer's identity, either their National Identification Number (NIK) or the new 16-digit Tax Identification Number (NPWP), on every issued invoice.

All Micro, Small, and Medium Enterprises (MSMEs) in Indonesia will automatically register as taxpayers by converting NIK into NPWP, enabling the Directorate General of Taxes (DJP) to record all subsequent transactions, including purchases made by MSMEs. This policy aims to increase accountability and ensure greater tax compliance among. While it holds the promise of transparency, it also introduces significant challenges for business operators.

However, the introduction of Core Tax raises an ethical dilemma for MSMEs, particularly when it comes to balancing moral obligations and business sustainability. In an increasingly strict tax environment, MSMEs face difficult choices. If they choose to adhere to moral obligations by fully reporting all income, they risk facing a high tax burden, which could threaten the stability of their businesses. On the other hand, if they choose not to be entirely honest in their tax reporting to preserve their business, they act unethically and risk substantial administrative sanctions and fines.

Particularly, MSMEs fear the designation of Taxable Entrepreneurs if their annual revenue surpasses IDR 4.8 billion. This designation necessitates the collection of a Value Added Tax (VAT) of 11%, thereby making their goods or services appear more expensive to consumers. MSMEs often try to avoid PKP status because collecting VAT can make their selling prices higher, potentially driving customers to seek out sellers who do not charge VAT. Thus, tax planning becomes crucial for MSMEs, especially those with annual revenues approaching the IDR 4.8 billion threshold. By exploiting loopholes in existing laws and regulations, tax planning strategies aim to minimize tax liabilities (Marques, 2022).

This study is innovative because it examines the moral conundrums that Indonesian MSME taxpayers confront in the context of tax compliance issues under the Core Tax Administration System. As an analytical framework, this study uses Prospect Theory to look at how MSMEs make decisions. It shows that they tend to put avoiding financial losses (like higher taxes and administrative burden) over the long-term benefits of tax compliance. This is different from most research that looks at large corporations or taxpayer behavior in general.

Furthermore, using a comprehensive qualitative case study methodology, this research examines the tax planning techniques used by two MSME owners in Indonesia as well as the difficulties they have in striking a balance between tax compliance and company continuation. The article also explores the potential impact of the impending Core Tax System adoption in 2025 on MSMEs, specifically the potential confirmation of their status as taxable entities, which could lead to increased operating expenses and a reduction in their competitiveness.

Finally, the paper offers policy recommendations for modifying the tax code in light of the moral issues brought up by MSME owners. These include simplifying tax filing and increasing the threshold for taxable individuals. Policymakers, tax authorities, and scholars involved in MSME growth and tax planning may all benefit from this knowledge.

Therefore, the implementation of Core Tax, along with digital tax transformations, adds layers of complexity for MSMEs. Effective tax planning is essential, but the ethical dilemma remains prominent: how to ensure business sustainability while complying with increasingly stringent tax regulations. Research in this area is crucial to providing solutions that support MSMEs in navigating these new challenges without compromising ethical principles.

LITERATURE REVIEW

Prospect Theory

Daniel Kahneman and Amos Tversky introduced Prospect Theory, which has found extensive application across various fields such as health, communications, and tourism (Gisbert-Pérez et al., 2022; Lin et al., 2024; Luo et al., 2021). It provides a psychological framework for understanding decision-making under risk and uncertainty, challenging traditional assumptions of absolute rationality (Huang et al., 2021). Prospect Theory posits that individuals are more sensitive to potential losses than to equivalent gains, which heavily influences their behavior, especially when faced with risky or uncertain outcomes. This concept of loss aversion explains why people often make seemingly irrational choices to avoid losses, even if it means foregoing potential benefits.

The introduction of Core Tax, with its real-time monitoring and emphasis on transparency, presents a heightened sense of risk for MSMEs. The designation of Taxable Entrepreneurs, which necessitates the collection of an 11% value-added tax (VAT), poses a significant risk to business owners. This VAT could increase prices, potentially driving customers away and diminishing the business's competitive advantage. According to Prospect Theory, MSME operators are thus more focused on these immediate, tangible losses rather than the long-term benefits of tax compliance, such as enhanced credibility and legal stability.

The application of Prospect Theory explains why MSMEs often engage in tax minimization strategies, such as splitting revenue among family members or creating additional business entities to remain below the PKP threshold. MSMEs adopt these strategies, even when they involve intricate and risky administrative maneuvers. The loss aversion principle of Prospect Theory clarifies this behavior: MSME owners prioritize avoiding perceived financial losses over pursuing potential benefits, even if

these strategies may introduce future legal risks. Prospect Theory's focus on avoiding losses is similar to what researchers have found in other areas, like human-centered communications and digital health technology adoption, where people also try to avoid expenses (Khan et al., 2022; Luo et al., 2021).

Ultimately, Prospect Theory remains a critical framework for analyzing decision-making across various domains, including tax compliance. By illustrating how individuals weigh losses and gains, it provides insights into why MSMEs might prioritize avoiding immediate financial losses, even if that means sacrificing future benefits or facing potential legal repercussions. This understanding is crucial for policymakers, as it emphasizes the need for supportive measures that can reduce perceived risks and make tax compliance more appealing and manageable for small business owners.

Core Tax Administration System (CTAS)

The Directorate General of Taxes (DJP) designed the Core Tax system as the primary tax administration system, facilitating the integration of various tax-related applications to ensure streamlined processes and improved monitoring of taxpayer compliance. This initiative is part of DJP's efforts to modernize Indonesia's tax administration and is grounded in the regulatory framework established by Minister of Finance Regulation No. 81 of 2024 on Tax Provisions for the Implementation of the Core Tax Administration System. The regulation mandates the integration of all tax applications within Core Tax, thereby creating a centralized and cohesive system for managing tax obligations and ensuring consistent oversight.

The implementation of Core Tax not only simplifies administrative procedures for taxpayers but also enhances the capabilities of tax authorities to monitor and enforce compliance through advanced, real-time data collection and analysis. The design of this system aims to enhance transparency, enhance the taxpayer experience, and boost the efficiency of tax administration. According to research, integrating digital technologies into tax administration can significantly reduce compliance costs, improve service delivery, and expand the tax base (Murtezaj, 2024).

By consolidating all tax-related applications into Core Tax, DJP aims to create a seamless interface where taxpayers can easily fulfill their obligations, such as filing tax returns and making electronic payments. As observed in other countries that have adopted similar digital reforms, the system's enhanced oversight capabilities, including real-time monitoring and automated discrepancy detection, aim to foster a higher level of tax compliance (Gobel et al., 2023; Hesami et al., 2024). Furthermore, Gichohi (2020) expects the integration of big data analytics and artificial intelligence within Core Tax to improve the detection of tax evasion and enhance the overall efficiency of tax collection.

Despite the advantages of the core tax system, MSMEs face ethical dilemmas as they adapt to this new level of transparency and oversight. Consequently, some MSMEs might engage in tax planning strategies to stay below the PKP threshold, which raises ethical concerns and practical challenges (Do et al., 2022; Kirakosyan & Manucharyan, 2019).

The integration of tax applications into Core Tax is a critical step in DJP's modernization agenda, aligning with global trends in digital transformation to improve tax compliance and administration efficiency. However, the implementation of such systems must also consider the unique challenges faced by MSMEs to ensure that the benefits of modernization do not come at the cost of business sustainability or ethical standards.

Tax Planning

Companies use tax planning as a strategic legal approach to minimize tax liabilities and optimize financial performance (Marques, 2022; Yang & Xu, 2019). It involves taking advantage of legal tax loopholes, discrepancies between international tax systems, and various lawful methods to reduce tax obligations (Zhuk & Tomashevskaya, 2019). By systematically organizing tax strategies, companies can lower their tax burdens, enhance profitability, and achieve financial advantages (Yang & Xu, 2019). Specifically, international tax planning leverages differences in tax systems across jurisdictions to minimize overall tax exposure (Marques, 2022). Effective tax planning is crucial for improving a company's efficiency and achieving its financial targets (Saroinsong et al., 2022).

Although the main objective of tax planning is to reduce tax burdens, it must always align with existing tax regulations to avoid legal penalties. Research has demonstrated that well-executed tax planning can enhance firm value and profitability (Noviari & Suaryana, 2020). However, the effectiveness of tax planning can vary across different stages of a company's life cycle, influenced by factors such as corporate governance structures and characteristics of the top management team.

For Micro, Small, and Medium Enterprises (MSMEs), tax planning has become even more critical with the implementation of Core Tax, which facilitates automated, NIK-based (National Identification Number) transaction tracking. Core Tax enables tax authorities to monitor transactions in real time, significantly reducing opportunities for MSMEs to engage in non-transparent tax avoidance practices. In this environment, MSMEs must develop tax plans that are both compliant and transparent to avoid sanctions from the Directorate General of Taxes (DJP). The increasing transparency and oversight provided by Core Tax create an urgency for MSMEs to ensure that their tax strategies are legally sound and aligned with regulatory expectations.

In conclusion, while tax planning remains an essential component of corporate strategy, it requires careful and informed execution to balance compliance and financial optimization. This strategic approach must adapt to evolving regulations, especially with advancements in tax oversight systems like Core Tax, which heighten the need for transparency and ethical tax practices.

METHODS

This research uses a qualitative design and a case study approach. The researchers chose this approach to gain a comprehensive understanding of the ethical dilemmas faced by MSME taxpayers during their tax planning, particularly related to the implementation of the Core Tax Administration System. This case study focuses on individual MSME taxpayers, specifically the owners of machinery and equipment stores as well as building material stores. The selection of these objects is due to their relevant characteristics, including annual income approaching or exceeding the IDR 4.8 billion threshold, which could potentially lead to their designation as Taxable Entrepreneurs. Data collection techniques include observation, interviews, documentation, and triangulation. The analysis tool used is thematic analysis.

RESULT AND DISCUSSION

UMKM Business Landscape: A Portrait of Business Operations, Financial Recording Systems, and Tax Practices

The business world is fraught with various challenges. The real-life experiences of MSME business owners, Mr. LH and Mr. R, reflect the dynamic struggle of entrepreneurs who continuously adapt and persevere despite the pressures of regulation and intensifying competition. These MSME owners come from diverse backgrounds but share the same burden of crafting business and tax strategies amidst limited resources.

Mr. LH began his journey as a household goods vendor traveling around Samarinda. However, due to high competition, his revenue declined year after year, with minimal profit margins. In 2017, he decided to shift his product offerings, focusing on selling machines such as generators, water filters, and water pumps. This strategic pivot significantly boosted his revenue. As Mr. LH explained, “Initially, I was selling small household items like pots, pans, and other things. However, due to the low profit margin, I shifted my focus to selling generators, water pumps, and filters in 2017”. Over time, Mr. LH's market expanded, attracting customers not only from Samarinda but also from nearby areas such as Bontang, Sangatta, and Muara Wahau.

His business, however, experiences significant fluctuations in revenue throughout the year, with sales reaching IDR 500 million to IDR 600 million per month during peak periods, while in slower months, revenue can drop to IDR 200 million to IDR 300 million. “When it's a favorable month, sometimes revenue can reach 500 to 600 million rupiah a month,” he mentioned (Mr. LH, October 30, 2024). This seasonal demand highlights how market trends heavily influence his business operations.

Despite his success, Mr. LH struggles with financial recordkeeping. He has yet to implement a structured bookkeeping system, making it challenging to get an accurate view of his business's financial performance. His transaction records mainly focus on sales but lack comprehensive financial details. He stated, "We primarily record sales." According to Mr. LH's on October 30, 2024, the admin records the sale of each item. Cash transactions, especially operational expenses, often go undocumented, leading to financial records that are incomplete and prone to inaccuracies.

Regarding tax practices, Mr. LH uses the MSME Final Income Tax rate of 0.5% on his monthly revenue. "I'm still using the final income tax rate of 0.5% on monthly revenue," he explained. Each year, Mr. LH reports his revenue and assets in his Annual Individual Tax Return (SPT) with the help of a tax consultant. However, his reported revenue often remains below the IDR 4.8 billion threshold, even when his actual revenue sometimes exceeds it, to minimize his tax burden.

On the other hand, Mr. R has been running a building materials store for over a decade and collaborates with his brother in a water tank factory. Although the building materials store's revenue is not as substantial as the factory's, it still presents its own set of challenges. "I've been in the business of selling building materials for more than 10 years, dealing mostly with items like cement, nails, wood, and others. "I also have another venture, where I work with my brother in the tank factory," Mr. R, November 9, 2024.

Although Mr. R has implemented a basic system for recording sales, purchases, and cash outflows, the records lack proper accounting standards. He stated, "We do have a system, but the records aren't as organized as in the factory. We note down debts, receivables, sales, purchases, and expenses" (Mr. R, November 9, 2024). Although this rudimentary system generates data summaries, the preparation of financial reports remains a manual task.

In terms of taxation, both Mr. LH and Mr. R apply the MSME Final Income Tax rate of 0.5% on their revenue, in line with regulations for businesses with revenue below IDR 4.8 billion. Mr. LH mentioned, "I'm still using the final income tax rate of 0.5% on monthly revenue" (Mr. LH, October 30, 2024), while Mr. R also favors this system, finding it simpler than calculating tax based on net income. However, they are both mindful of the risk of surpassing the IDR 4.8 billion threshold, which would require registering as a Taxable Entrepreneur.

Overall, Mr. LH and Mr. R's business journey paints a picture of resilience and adaptability in facing regulatory uncertainties and intense competition, such as the implementation of the Core Tax Administration System in 2025.

Navigating Ethical Dilemmas: The MSME Struggle Between Business Survival and Tax Compliance

The Core Tax Administration System (CTAS) has made it possible to seamlessly record all transaction data and taxpayer interactions from a variety of sources, including invoices produced by distributors or agents. Core Tax, as an automated tax system requiring distributors to create tax invoices using the buyer's NIK (National Identification Number), has caused significant concern among MSMEs. Every transaction an MSME conducts with its distributors will immediately register in the system, reducing the flexibility that MSMEs previously had in reporting their revenue.

For business owners like Mr. LH, this automated recording introduces anxiety because, as he puts it, "everything is recorded" (Mr. LH, October 30, 2024). As a result, numerous MSMEs perceive that Core Tax has taken away their ability to tailor revenue reporting to their business requirements, particularly since the integration of the NIK with the NPWP (Tax Identification Number) has further limited their potential for tax evasion.

The status of Taxable Entrepreneur is a designation for small businesses. The Core Tax Administration System (CTAS) has made it possible to seamlessly record all transaction data and taxpayer interactions from a variety of sources, including invoices produced by distributors or agents. Core Tax, as an automated tax system requiring distributors to create tax invoices using the buyer's NIK (National Identification Number), has caused significant concern among MSMEs.

Every transaction an MSME conducts with its distributors will immediately register in the system, reducing the flexibility that MSMEs previously had in reporting their revenue. owners are keen to avoid. MSMEs fear that if they make purchases using their NIK, Core Tax will automatically log

all transactions, potentially pushing their annual revenue over the IDR 4.8 billion threshold and forcing them to become PKP. This status necessitates MSMEs to collect value-added tax (VAT) from their customers, a requirement that consumers often reject. As Mr. LH explained, “Customers don’t want to be charged VAT” (Mr. LH, October 30, 2024), since it would automatically increase the price of goods. As a result, customers might shift to vendors who are not PKP, directly impacting the business's survival.

Beyond the burden of VAT, PKP status comes with significant administrative demands. For instance, Mr. R, who operates a building materials store, mentioned that becoming PKP would require him to file monthly VAT returns and issue tax invoices. “I don’t want my building materials business to become PKP; it would just complicate tax and invoicing matters” (Mr. R., November 9, 2024). This statement highlights that PKP status often forces MSMEs to deal with more complex administrative procedures despite having limited human resources.

These resource limitations further compound the pressure on MSMEs, who often have to manage tax administration independently. Many MSMEs operate with a small workforce, with employees often handling multiple roles. As Mr. LH pointed out, “We only have four employees, and even the admin doubles as a salesperson” (Mr. LH, October 30, 2024). The introduction of Core Tax increases the pressure to hire additional staff or pay for tax consultancy services, further adding to their operational costs. In this situation, MSME owners face a dilemma: comply with tax regulations or focus on business survival.

Several MSME owners are considering strategies to avoid PKP status in order to alleviate the additional financial and administrative burdens. Mr. R emphasized this point, stating, “I don’t want my building materials business to become PKP; it would just complicate tax and invoicing matters” (Mr. R, November 9, 2024). They prefer to sell directly to end consumers without reporting their full revenue in order to stay below the PKP threshold. This behavior indicates that concerns over tax policy drive some MSMEs to be less transparent in reporting their earnings.

For MSMEs with thin profit margins, the additional costs associated with VAT and other tax obligations often outweigh the benefits. Mr. R expressed his concern, “If Core Tax comes into effect, we could end up losing money” (Mr. R, November 9, 2024), reflecting a fear of financial loss if they have to bear extra tax costs. Furthermore, the automated tracking of Core Tax makes MSMEs feel more monitored and constrained, exacerbating their discomfort with the system.

This dilemma also brings a moral burden to MSME owners who want to operate their businesses honestly. Mr. LH acknowledged, “We do want to be honest, but being honest is complicated” (Mr. LH, October 30, 2024). While they desire to comply with regulations, they feel that the burdens they face are disproportionately heavy compared to their capacity as small businesses.

The complexity of the core tax system is a major source of confusion for MSMEs. Mr. LH mentioned, “Core Tax is complicated; I don’t understand it,” and noted that only those with tax consultants might find the application simple to navigate. He added that the system is too complicated for the average person, with numerous menus that are difficult to comprehend. These technical difficulties present a significant barrier for MSMEs in managing their businesses while staying tax-compliant.

Daniel Kahneman and Amos Tversky developed the Prospect Theory to help clarify this ethical dilemma. The theory suggests that framing options in terms of “gains” or “losses” influences individuals' decisions more than purely rational economic logic. In the context of MSME taxation, Prospect Theory suggests that business owners are more motivated to avoid losses than to pursue gains—a phenomenon known as “loss aversion.”

Faced with Core Tax, MSMEs perceive a greater risk in transparently reporting their revenue. With an automated system that records transactions in real time, they feel threatened by the possibility of being designated as PKP, which would require them to collect VAT from consumers. Mr. LH noted that customers are reluctant to pay VAT as it could potentially drive them away. From the perspective of Prospect Theory, MSMEs view VAT collection as a potential loss, as it could increase prices and drive customers to non-PKP vendors. Rather than seeing VAT as a legal obligation contributing to national tax revenues, business owners focus on the potential financial losses from

losing customers. They are more inclined to avoid immediate financial losses than to consider the long-term benefits of tax compliance.

The dilemma becomes even more complex when MSMEs must weigh the cost of additional administrative work and personnel needed to comply with Core Tax. For instance, PKP status requires monthly VAT filings and tax invoice management, which demand extra time and resources. Prospect Theory suggests that MSMEs, particularly those with slim profit margins, perceive these additional administrative requirements as losses. Mr. R expressed this concern clearly: "If Core Tax comes into effect, we could end up losing money," indicating a stronger aversion to financial loss than a desire to achieve potential benefits from streamlined tax compliance.

Prospect Theory also explains why MSMEs prefer to stay under the IDR 4.8 billion revenue threshold to avoid PKP status. They view the benefits of being non-PKP as a "safe status" that helps them avoid extra burdens, even though this status may limit their growth opportunities. In this scenario, the perceived benefits of remaining non-PKP outweigh the potential risks of becoming PKP. Prospect Theory illustrates that MSMEs tend to avoid changes perceived as risky, even if these could offer growth opportunities. As Mr. LH expressed, "I'm torn between keeping the business as it is or following the tax rules," highlighting the hesitation to take risks despite potential long-term benefits from tax compliance.

Overall, Prospect Theory reveals that MSMEs face an ethical dilemma in taxation due to a psychological tendency to avoid immediate and visible losses rather than pursue potential long-term gains or stability. Policymakers should acknowledge that MSMEs are likely to resist tax policy changes they perceive as "losses." To make Core Tax more acceptable, tax authorities should reframe the policy narrative from a "burden" to a "benefit," such as offering incentives for tax-compliant MSMEs or providing adequate training on tax administration. By emphasizing the potential benefits rather than the losses, MSME owners may be more willing to engage in transparent and compliant tax practices.

Navigating Core Tax: Tax Planning Strategies for MSMEs

Core Tax is a digital tax system that aims to improve transparency and facilitate real-time monitoring of taxpayers' financial activities. This system marks a significant shift for taxpayers, especially MSMEs, in how they approach tax planning. For MSMEs like Mr. LH and Mr. R, Core Tax compels them to reassess their tax planning methods. On one hand, they aim to maintain optimal revenue, but on the other hand, they face an ethical dilemma to ensure their strategies remain within legal boundaries.

MSMEs commonly employ tax planning as a strategy to lawfully reduce their tax burden. By utilizing legal loopholes in regulations, MSMEs can allocate more funds toward reinvestment or business development. In the case of Mr. LH, one strategy he employs is distributing business revenue among his family members. "The plan is to create a tax ID for my child. Later, we'll share the revenue with the kids," Mr. LH stated on October 30, 2024. The goal of this revenue distribution is to maintain the annual turnover below the threshold for the Taxable Entrepreneur (PKP) designation, thereby avoiding additional value-added tax (VAT) obligations.

This approach is crucial because PKP status would increase both administrative and financial complexities for MSMEs. Mr. LH feels it is necessary to keep his turnover under the threshold to avoid additional costs, particularly the 11% VAT. He mentioned, "In 2025, we might have to increase our expenses. If we lose the 11% through VAT, we'll need to adjust our costs by 11% to offset it" (Mr. LH, October 30, 2024). This statement reveals how Mr. LH considers strategies to minimize financial burdens arising from additional taxes.

To further illustrate this strategy, consider Mr. LH's annual business revenue of IDR 10,000,000,000. With a gross profit margin of 20%, he requires IDR 8,000,000,000 in purchases to sustain sales. Mr. LH distributes these purchases among his two children. Under his scheme, Mr. LH uses his NIK to make purchases worth IDR 3,500,000,000, while his first child manages IDR 3,000,000,000 and his second child manages IDR 1,500,000,000. This division ensures that the turnover reported in each individual's Annual Tax Return (SPT) remains below the IDR 4.8 billion threshold, thereby avoiding PKP status and the need to collect VAT from consumers.

The strategy does not stop at distributing revenue among family members but also involves creating new legal structures. Mr. LH mentioned his plan to establish a new Commanditaire Vennootschap (CV): “Later, we plan to set up a new CV to allocate some of the revenue there” (Mr. LH, October 30, 2024). By establishing a CV, Mr. LH reduces the risk of exceeding the revenue threshold for a single entity while continuing to grow his business. Additionally, he considers periodically closing and reopening the CV: “We’ll create a new CV, and after four years, we’ll shut it down” (Mr. LH, October 30, 2024). This proactive strategy aims to keep revenue distribution within acceptable limits, albeit with potential ethical concerns regarding transparency.

However, Core Tax poses new concerns for Mr. LH due to its complexity. It automatically records purchases made using NIK, which means we have to report income on the Annual Tax Return. If there’s no income, managing purchases becomes a headache” (Mr. LH, October 30, 2024). This situation forces Mr. LH to consider more meticulous bookkeeping. He acknowledges, “We’ll need to record every purchase and find someone knowledgeable and polite to manage it” (Mr. LH, October 30, 2024). This indicates that Core Tax is pushing MSMEs toward greater accountability in their financial documentation.

Mr. LH is also preparing for Core Tax’s impact by considering hiring tax and accounting consultants to ensure compliance. He explained, “We record everything, especially tax invoices. We must have physical copies, and my admin checks everything. We’re worried about mismanaging annual purchases, especially since Core Tax won’t allow us to hide anything anymore” (Mr. LH, October 30, 2024). This strategy is a precautionary measure to avoid violations under stricter regulations.

On the other hand, Mr. R faces similar challenges but adopts a different approach. His strategy involves selectively recording transactions, only including those that have tax invoices in his official records. “We plan to only record purchases with tax invoices. If we buy without an invoice, it won’t go into the system. Some distributors agree not to issue tax invoices for sales transactions” (Mr. R, November 9, 2024). By relying on this approach, Mr. R ensures that his reported turnover stays below the PKP threshold, avoiding higher tax obligations.

Mr. R also manages cash sales manually, meaning not all transactions are recorded in the digital system. “Some sales are by transfer, others in cash. The system only records sales from officially recorded items, thereby not reporting all turnover. Cash sales don’t go into the system” (Mr. R, November 9, 2024). This allows Mr. R to control his reported turnover, keeping it within the desired limits.

Daniel Kahneman and Amos Tversky’s Prospect Theory views the behavior of Mr. LH and Mr. R as reflecting risk-averse strategies. The theory posits that individuals are more sensitive to potential losses than to potential gains. For instance, Mr. LH distributes revenue among family members to avoid the financial losses associated with VAT obligations and the additional administrative burden of PKP status.

Mr. R’s approach similarly highlights this loss aversion, as he manually records transactions and avoids digital documentation when possible. According to Prospect Theory, this behavior shows a preference for avoiding potential losses rather than pursuing gains. However, the ethical dilemma arises when these tax planning strategies enter a gray area in terms of tax ethics. While Mr. LH and Mr. R operate within legal boundaries, their strategies often lack transparency, aiming to minimize tax obligations. Taxes are a crucial source of state revenue, and unclear tax obligations can undermine the taxpayers’ contribution to national development.

Recognizing these challenges, Mr. LH acknowledges the need for greater attention and preparedness for Core Tax: “We’ll hire accountants to record everything and might consider monthly consultants for analysis” (Mr. LH, October 30, 2024). This suggests a commitment to improve compliance with tax regulations.

The tax planning strategies employed by Mr. LH and Mr. R in response to Core Tax illustrate the complexities and dilemmas MSMEs face in managing tax obligations. While strategies like revenue distribution and selective transaction recording can reduce tax burdens, they place MSMEs in an ethical gray area. Prospect Theory underscores that MSMEs prioritize avoiding significant financial losses, particularly when faced with PKP obligations and administrative burdens. Amid stricter

regulations, MSMEs must balance profit maximization with social responsibility through transparent tax compliance. Continuous adaptation and adherence to ethical principles will be crucial for MSMEs to sustain and grow in the era of digital taxation.

MSME's Expectations and Concerns: A Critical Review of Core Tax Implementation

Core Tax aims to increase transparency and compliance but presents new challenges for small and medium-sized enterprises, especially in tax management and planning. Taxpayers like Mr. LH and Mr. R feel that the policy is not entirely fair and requires adjustments to align better with the realities of MSMEs.

Mr. R believes that the system is excessively complex for small businesses that still heavily rely on manual recordkeeping.

“The biggest challenge is that this system is too complex for small businesses like us. Large companies with extensive administrative processes seem to be the target audience for Core Tax. For us, managing a small building materials store with such a complex system is simply overwhelming. For example, while we must automatically report revenue and purchases, small businesses often do not record all transactions neatly; many still rely on manual methods” (Mr. R, November 9, 2024).

This impracticality imposes an additional burden on MSMEs that lack the resources to adapt to a complex digital system. Many MSMEs also feel that the core tax is unfair. Mr. LH criticized the IDR 4.8 billion PKP threshold for MSMEs selling high-value products, stating, “We sell machines, and each one costs millions.” Just a few sales a month can total 700 million. For businesses with high profit margins, the 4.8 billion limit makes sense, but for us, it’s unfair” (Mr. LH, October 30, 2024). He hopes the policy will take into account the nature of the business and profit margins to avoid disproportionately burdening small businesses.

Mr. LH also feels that the policy punishes those who are already compliant while allowing tax evaders to go unchecked. He expressed frustration:

“I’m annoyed with the tax authorities. In some cases, we’re honest, but competitors don’t report taxes. There is a competitor with a higher sales volume than mine who does not have PKP status. Instead of investigating those who pay taxes, the tax office should target non-payers. “I don’t understand why” (Mr. LH, October 30, 2024).

Despite these grievances, MSME taxpayers hold certain hopes for the policy, particularly the desire for a more user-friendly system. Mr. LH hopes that the government will simplify the tax reporting process.

“Please make Core Tax not just a system that combines applications, but one with simple menus so it’s not confusing. The government should simplify reporting; currently, despite the integration, distinct reports exist for income tax, VAT, and annual tax returns. If possible, let us report everything once per month to make it easier” (Mr. LH, October 30, 2024).

This reflects the need for a more user-friendly system, especially for businesses with limited human and technical resources.

Mr. R also expressed his desire for a more straightforward and adaptable policy:

“I hope we can simplify core tax for MSMEs like mine. We should tailor the menus to the size of the business. For factories or large companies, we should design complex menus, while smaller shops like mine should opt for simpler menus that we can manage independently without the need for a consultant. “Hiring a consultant adds extra costs and reduces our profits” (Mr. R, November 9, 2024).

This highlights the desire for a simplified reporting option that doesn’t require additional expenses for consulting services.

To mitigate the financial burden of VAT, many MSMEs hope for an increase in the PKP threshold. Mr. R suggested increasing it to between IDR 10 and 15 billion.

“I hope the government raises the PKP threshold. The 4.8 billion limit is still too low. We should raise it to 10 or 15 billion. I wouldn’t mind a higher income tax rate, say 2%

for MSMEs, as long as we don't have to deal with VAT. VAT is 11%, and if buyers don't pay, we end up covering it ourselves. It becomes a burden, particularly given our relatively small profit margins (Mr. R, November 9, 2024).

A higher threshold would allow more flexibility in planning and calculating turnover without the fear of VAT obligations.

From a Prospect Theory standpoint, MSME taxpayers' fear of financial loss due to Core Tax policies drives them to focus on risk-avoidance strategies rather than proactive measures. As Mr. LH remarked, "It's fine to implement Core Tax with transaction recording, but only for companies with large profits. For MSMEs like mine, our profit margins are small, so don't make it harder with unclear rules" (Mr. LH, October 30, 2024). This statement illustrates how MSMEs are more concerned about significant financial risks than potential long-term benefits from a more efficient tax system.

The grievances and expectations voiced by MSME taxpayers underscore an urgent need for the government to reassess Core Tax policies to make them fairer and more flexible for MSMEs. By addressing feedback from small business owners, the Directorate General of Taxes can create a more MSME-friendly system, enhancing compliance and building trust in the new tax framework.

CONCLUSION

The implementation of the Core Tax Administration System (CTAS) has significantly impacted MSMEs, introducing both opportunities and challenges. For business owners like Mr. LH and Mr. R, tax planning strategies often blur the line between legal compliance and ethical concerns. The real-time data recording and automated processes of Core Tax have reduced flexibility in revenue reporting, while stringent regulations, such as the IDR 4.8 billion PKP threshold, have heightened anxiety, prompting risk-averse strategies. These strategies include revenue distribution among family members and selective transaction recording, which, though legally permissible, may undermine transparency and ethical tax reporting.

To address these challenges, policymakers must simplify tax processes, increase the PKP threshold, and provide more flexible reporting options. Offering targeted training and support for MSMEs would help business owners navigate the system more effectively. For Core Tax to succeed, it must balance regulatory demands with the practical needs of MSMEs, fostering a supportive environment that encourages compliance and ensures MSMEs can thrive while contributing to national development.

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