

---

## Tax Policy: What does SMEs say?

Dian Anita NUSWANTARA,

diananita@unesa.ac.id

Dewi PRASTIWI,

dewiprastiwi@unesa.ac.id

AISYATURAHMI,

ardilla\_ais@yahoo.com

Universitas Negeri Surabaya, Accounting Department, Faculty of Economics,  
Indonesia

---

### Abstract

*Tax is one of the main sources of government revenue in Indonesia. Unfortunately the enormous population has not been able to make tax revenues so great. The cost to issue a new policy package should be accompanied by increased taxpayer compliance, as indicated by tax revenue. But until now the increase in tax revenue is due to the higher the value of money. Based on the above, it needs to be studied and analyzed on how the critical analysis of income tax policy for individual taxpayers of small and medium enterprises (SMEs).*

*A qualitative approach using phenomenological studies is designed to gain an explanation of the above phenomena in terms of the taxpayer's perspective. Survey technique is the main data collection technique used in this study. The final process of the research is expected to find the right formulation of the current policy and find the policy formulation that can be used as input for policy makers in the field of taxation.*

**Keywords:** Tax policy, income tax, SMEs, taxpayers' perspective

JEL Classification: G3, M1.

---

### 1. Introduction

Taxes play many roles in various countries, namely as economic stabilizers of society and distribution of welfare. Therefore, it is natural for governments in any country to always make the taxes collect according to the targets they set. This means the government should not only be able to set targets but also know how to achieve them.

Tax rules are firm and rigid. So that the regulation should be able to cover taxpayers who are not obedient to the regulations. But in fact, in Indonesia, there

are still many taxpayers who have not fulfilled their obligations. There are many possible causes. Can be viewed from the perspective of the taxpayer and the point of view of tax authorities. From a taxpayer's perspective, policies that are not considered to be their expectations, inconsistent tax authority actions, and oblique headlines related to government performance in general, are the reasons often expressed as causes of non-compliance. From the point of tax authorities, unfamiliar, immoral and environmental influences are the reason they do not want to pay taxes.

Indonesian tax ratio, as a result, is still in the range of 11%, lower than the Philippines, Malaysia and Singapore ([www.pajak.go.id](http://www.pajak.go.id)). This portrait shows compliance in paying taxes is still low. Various ways have been done by the government in order to boost the increase in tax ratio and to educate the importance of tax for development in order to increase taxpayer awareness and compliance. Indonesia has made several tax reforms over the last 20 years, starting from the Tax Reform in 1998, Sunset Policy in 2008 to the Year of Taxpayer Development in 2015.

Tax reform has also been done through the simplification of tax rates. In 2008 there was a change in income tax rate as set forth in article 17, Law no. 36 Year 2008 regarding Income Tax. For personal income tax rate is simplified from 5 layers to 4 layers of tariffs applicable since 2009. Since then until now layers of PPh tariff no change.

Various programs that provide facilities and convenience for taxpayers have not been able to boost the compliance level Taxpayers. One of the perpetrators of non-tax compliance in various countries is SME<sup>1,2</sup>. Kamleitner<sup>3</sup> mentions three factors that cause SMEs are not taxable: not to comply from employed taxpayers; they are more likely to experience a lack of meaningful taxation knowledge; and they are more likely to face decision frames that render taxes as painful losses. That is why the SMEs' owner tax profile is worth studying.

The question that arises in the minds of researchers is whether the policy has been issued perceived to provide benefits by the Taxpayer? If it is true to benefit, why not be able to boost compliance?

## **2. Literature review**

### **Theory and Basis of Tax Collection**

Tax is the contribution or contribution of the people to the Government funds as regulated by law (which can be enforced) with no direct counter-achievement and by the state used to pay public expenses<sup>4</sup>. The definition of the tax extends into a transfer of wealth from the people to the Government to finance routine

expenditures and its surplus is used for public saving, which is the primary source of public finance. According to Santoso and Rahayu<sup>5</sup>, taxes are a diversion of wealth from the private sector to the public sector and lead to a decrease in private sector wealth or purchasing power. Some of these meanings imply the same meaning of taxes, which is a levy for citizens undertaken by the State as the embodiment of contribution for the availability of facilities for all citizens.

Some economists put forward the basis of tax collection, one of the economists who was the originator of the capitalist economy was Adam Smith. According to Adam Smith in his book *Wealth of Nation* the basis of tax collection is as follows:

1. Equality Principle (the principle of equilibrium with the ability or principle of justice): the collection of taxes conducted by the state must be in accordance with the ability and income taxpayers. The state shall not act discriminatively against the taxpayer.
2. Certainty principle (principle of legal certainty): all tax levies should be based on the Act, so that those who violate will be subject to legal sanctions.
3. Principle of Convenience of Payment: tax must be collected at the right time for the taxpayer (when the best), for example when the new taxpayer receives his income or when the taxpayer receives the prize.
4. Efficiency Principle (efficient principle or economical principle): the cost of collecting taxes is sought as much as possible, lest tax collection charges be greater than the proceeds of tax collection.

### **Tax and Social Welfare**

Taxes relate to social welfare because one of the functions and objectives of tax collection is to improve the welfare of society and social welfare. Some types of tax functions include:

(1) budget function, ie as a source of state income, taxes serve to finance state expenditures, routine financing such as personnel expenditure, goods expenditure, maintenance, etc., for financing development, money is spent on government savings, ie, domestic revenues minus routine expenses. This government savings from year to year should be increased according to the need for increased development financing and this is especially expected from the tax sector;

(2) regulatory functions, tax policy is one way governments can regulate economic growth;

(3) the function of stability, tax is one way the government to implement policies related to price stability so that inflation can be controlled; (4) the function

of income redistribution, the tax already levied by the state will be used to finance all public interests, including also to finance the development so as to open employment opportunities, which will ultimately be able to increase the income of the community. This fourth function is a function of taxes on social welfare.

According to Ozawa<sup>6</sup> the concern about the redistribution of income in America has existed for 40 years, that is the concern that a fair share of national income should be aimed at low-income families, at which time the prevailing tax rate is the regressive tax rate (taxpayer whose income small taxes are higher than those with higher incomes). But then comes the issue of injustice when talking about inequality in distribution and poverty, because the definition of poverty has undergone a shift in line with the increasingly prosperous society. Therefore the tariff is changed to be progressive to create income redistribution justice through the general welfare programs, where the program is funded from proportional taxes imposed higher for taxpayers who earn higher than those who earn less.

Past research reviewing how it should determine fair tax rates and schemes to determine taxes to be rational suggests that a review of justice over the tax rate range is more beneficial to taxpayers at lower income levels than higher/wealthy<sup>7</sup>. This review aims to create justice for all taxpayers according to their ability. Zhou<sup>8</sup> offers a tax rate calculation scheme based on the progressive coefficient, as applied to the federal income tax rate in the United States that is using the progressive minimum coefficient. This prevents the possibility of overpaid for taxpayers with a low layer of taxable income. Ultimately, a change in tax rates can lead to new injustices, because the perception of fairness in terms of tax payments for taxpayers is basically about whether taxpayers are willing or not to pay taxes on the basis of new tariff calculations compared to old rates.

### **Research Method**

This research is designed to obtain input from Taxpayer related to tax reform program. Particularly deals with the following questions:

- a. What is the view of Taxpayers regarding the tax reform program to the latest Tax Policy?
- b. What is the taxpayer's assessment of the amount of tax deductible that has been set?
- c. How is the Taxpayer's decision related to these tax policies?

The research was conducted in Surabaya, the second largest city in Indonesia. The research type is qualitative phenomenology research with survey technique. Determination of informants is done by using purposive sampling technique that is Personal Taxpayer who own his own business. Selection of

Surabaya city is based on criteria to reflect the strata of society in middle and high strata.

Data collection was obtained through indepth interview using question tool, recording device, camera, and observation note. The variables to be studied in this study are about business activities and taxation, household activities, and other activities undertaken by the Taxpayer.

Data analysis technique used in this research is qualitative analysis. Presentation of data in this research is presented in the form of a brief description (narrative text).

### 3. Results and Discussions

#### Here's what taxpayers say about:

#### Tax Reform to the latest Tax Policy

Informants' assessment in general is that the tax paid gives a positive impact on the economy in Indonesia. In addition, taxes paid by taxpayers provide support for the sustainability of the business undertaken. One of the obvious things is the attention of the government to the entrepreneurs who pay taxes with an orderly privileged in the form of certificates which explains that the certificate holder can receive tax refunds without going through the examination and may even increase bank confidence in compliant taxpayers. If their taxes are compliant, the public certainly believes that the taxpayer has reliable and reliable financial data.

Informants argue that taxpayers' awareness of paying taxes has begun to grow:

*"I still pay taxes, but for tax reform I do not quite understand. As an employer, I pay, just pay taxes without knowing what and how. Usually later will be given direction when in the tax office". (P2)*

*"I pay taxes, and I am obedient to the rules, but I know now that the tax laws are getting good. Yesterday I was late and I got an incentive. I think it's good because the business income is uncertain". (P3)*

The respondents' answers illustrate that they have already enjoyed policy benefits in 2015, ie incentives are provided for all types of taxes; incentives are granted to the WP who submits the first-time tax return or reverse tax report; and

incentives are granted for late payments and late reporting of tax reports made in 2015

Field observations and surveys show that SMEs are already beginning to benefit from the policy. But the socialization related to government programs seems to be less effective so there are still many taxpayers who claim not to understand the tax. Although some informants showed a positive attitude by doing their duty though not yet able to improve understanding. They pay taxes only as one of the routine activities, performing obligations when it is time. Without a thorough understanding of taxation reform will certainly have an impact on the wrong understanding of taxpayers associated with the rules of taxation imposed.

### **Tax Rate Established**

The magnitude of tax rates also became one of the discussions and problems that often arise among taxpayers. The important point that they stress the tax paid is based on the calculations set out in the taxation provisions. The signs are used as a guide for the taxpayer so that they pay taxes in accordance with the income and scale of the business run. And that is not less important is the calculation process also does not complicate the taxpayer.

*“like that, I pay taxes based on existing rules, and so far there is no problem with the numbers because the percentage is set” (P2)*

The existence of the rules of calculation of taxes to be paid to make taxpayers will be more concerned and no trouble if it has reached the maturity of paying taxes. It is in harmony with the Principle of Convenience of Payment.

*“so far I have no difficulty, I as compulsory taxpayers and taxes that I pay is in accordance with the applicable regulations, there is already a calculation technique and the percentage so I am easy in paying taxes. sometimes my child counts my taxes even if I keep checking his work” (P4)*

Based on these discussions do not appear to be a taxpayer's disappointment of the tariff determined. In other words the tax tariff has been in accordance with the expectations of participants. In addition, participants also feel that the process of calculating the amount of tax rates to be paid easily calculated. With the ease of the taxpayers also feel benefited because they do not need to take a long time to do the calculation. With the convenience of these will make the taxpayers make payments in a timely manner.

The amount of tax rates that have been felt in accordance with the expectations of business actors can certainly increase the participation of taxpayers to pay taxes. Taxpayers will respond positively to established tax rates by paying taxes on time. In addition, taxpayers pay taxes without any pressure and feel useful to the community. As the participant's statement as follows, where the tax paid is fair.

*“the specified taxes are in accordance with the size of the business, I am still a small business so the tax paid is also smaller than the business that the level is greater” (P5)*

*“I am fine all this time, the tax paid is in accordance with my business,,,,, my business income of this size, and it is balanced with the tax” (P2)*

The principle of Equality (the principle of equilibrium with the ability or principle of justice) has been felt by the taxpayer. Based on the respondent's statement that paying taxes is in accordance with the scale of the business undertaken. Thus, because there is an element of justice will make taxpayers do not feel harmed. They pay taxes as they fit the abilities and results of their business.

In addition, taxpayers also feel that the tax paid sometimes faces technical obstacles. As the following participants:

*“the calculation is very easy,,,,, but when it is in the real environment or the implementation process, there are still constraints,,, a little miscalculated,,,,, maybe less carefully” (P1)*

Although the calculation of the percentage of taxes, associated with the amount of tax rates sometimes also experience problems in the implementation. This can happen if the taxpayer is less conscientious and less understanding of the applicable regulations. Therefore, the taxpayer must be careful when the process pengisian tax reports. The taxpayer must also perform a re-check to ensure that the written and written data must be accurate and appropriate to the actual conditions.

## **Taxpayer Decision**

In principle, taxpayers have realized that tax becomes one of the media for economic equity and stability. The existence of taxes, there is a process flow of money/wealth from the community to the government, where the government will be through the function of budgeting will channel again to the community. Taxes collected from the taxpayer will return to the community. Taxpayers pay taxes in order to contribute to the development of the economy.

Field findings indicate that taxpayers have not fully understood the tax rules but they still carry out their tax obligations. The taxation policy has become the government's special attention. Evidenced by several government reforms. Taxpayer's decision to perform the obligations solely because the obligations must be met. They do not do it because of a genuine "obedience". This kind of compliance is becoming a common situation in developing countries. And this often causes taxpayers not wholeheartedly perform their tax obligations.

The government's openness in considering and issuing a broad policy is the best means of communicating with the public. Just and rational feelings are important for the formation of an obedience. The action of the taxpayer to simply fulfill the obligation is a fragile attitude that will break easily when there is an unfulfilled statement. But the government's openness and the spirit to increase understanding to taxpayers is the best way to increase taxpayer loyalty to the government in the form of tax payments.

## **4. Conclusions**

There are 3 (three) important research findings, namely: a) tax reform has improved from year to year including the reform of Taxation to the latest Tax Policy; b) the amount of tax rate is in accordance with the size and scale of the business carried out so that taxpayers perceived tax tariff is in accordance with Equality Principles and c) taxpayers do not have enough tax knowledge but still meet the tax obligations.



## 5. Implications

The competent tax authority needs to review its tax dissemination program in order to be effective in increasing the public tax understanding that is important for compliance<sup>9</sup>. The absence of tax knowledge will make the rule seem difficult<sup>10,11</sup>. There is no need to reform the tax by changing tariffs and policies. Society does not need such adjustments. All they need is legal certainty and a belief that taxes benefit. As in many countries, tax reforms only spend time, money and labor while still providing an uneasy challenge<sup>12</sup> and never changing people's views.

## References

- [1] Atawodi, Ojochogwu Winnie and Stephen Aanu Ojeka. (2012) Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management* Vol. 7, No. 12; June 2012
- [2] Pope, Jeff and Hijattalah Abdul-Jabbar. (2008). Small and Medium-Sized Enterprises and Tax Compliance Burden in Malaysia: Issues and Challenges for Tax Administration. *Journal Small Enterprise Research* Volume 16, 2008 - Issue 1
- [3] Kamleitner, Bernadette, Christian Korunka and Erich Kirchler. (2012). Tax Compliance of Small Business Owners: A Literature Review and Conceptual Framework. *International Journal of Entrepreneurial Behaviour & Research*, Vol. 18 Iss: 3 pp. 330 – 351
- [4] Soemitro, Rochmat. (1990). *Azas dan Dasar Perpajakan*. Bandung: Eresco.
- [5] Santoso, Iman dan Ning Rahayu. (2013). *Corporate tax management: Mengulas upaya pengelolaan pajak perusahaan secara konseptual-praktikal*. Jakarta: Ortax.
- [6] Ozawa, Martha. (1973). Taxation and Social Welfare. *Social Work*. Vol. 18. No. 3, pp. 66-76.
- [7] Zhou, Qihou. (2007), A Scheme to Determine Tax Rates Fairly and Quantitatively. *The American Journal of Economics and Sociology*. Vol. 66. No. 5, pp. 937 – 958.
- [8] *ibid*
- [9] Rahayu, Yayuk Ngesti, Margono Setiawan, Eka Afnan Troena and Sudjatno. (2017). The role of taxpayer awareness, tax regulation and understanding in taxpayer compliance. *Journal of Accounting and Taxation*, Vol. 9(10), pp. 139-146, November 2017
- [10] Tarjo. (2009). Complexity and Socialization of Taxation Rule In Affecting the Taxpayer Accounting Behaviour in Indonesia. *The International Journal of Accounting and Business Society*, Vo. 17, No. 1, August 2009
- [11] Saad, Natrah. (2014). Tax Knowledge, Tax Complexity and Tax Compliance: Taxpayers' View. *Procedia - Social and Behavioral Sciences* Volume 109, 8 January 2014 , Pages 1069-1075
- [12] Rao, M. Govinda. (2000). Tax Reform In India: Achievements And Challenges. *Asia-Pacific Development Journal*, Vol. 7, No. 2, December 2000.