INCOME TAX TREATMENT AND FACILITIES FOR MSMES IN THE EMERGING MARKET: A QUALITATIVE ANALYSIS OF CURRENT LAWS AND REGULATIONS

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OPEN ACCESS

How to cite this paper: Yanto, Suyono, E., Maghfiroh, S., Herwiyanti, E., Kusuma, P. D. I., & Purwati, A. S. (2025). Income tax treatment and facilities for MSMEs in the emerging market: A qualitative analysis of current laws and regulations. *Corporate Law & Governance Review, 7*(2), 41–49. https://doi.org/10.22495/clgrv7i2p4

ISSN Online: 2664-1542
ISSN Print: 2707-1111

Received: 28.05.2024
Revised: 24.10.2024; 12.01.2025; 11.03.2025
Accepted: 08.04.2025

JEL Classification: G32, G34, M41, M48
DOI: 10.22495/clgrv7i2p4

Abstract

This study aims to elucidate the income tax treatment for the micro, small, and medium enterprises (MSMEs) industry in Indonesia and the tax facilities available to facilitate the MSME industry's growth into a large business unit, following current Indonesian tax laws, addressing the widespread issues within this industry regarding comprehension of applicable tax regulations and enhancing compliance among MSMEs taxpayers. The authors employ a qualitative method encompassing a review of academic literature and related materials, focus group discussions for input into research report design, and a subjective approach to evaluating existing data and materials. The study's findings reveal that MSMEs in Indonesia can maintain records without mandatory bookkeeping as long as their business turnover does not exceed IDR 4,800,000,000, benefiting from a 0.5 percent final income tax rate under Government Regulation No. 23 of 2018 for a specified period. Once the turnover exceeds IDR 4,800,000,000, it becomes mandatory to keep bookkeeping records, prepare financial reports at the end of the year, and pay corporate income tax based on the prevailing income tax law in Indonesia, which is 22 percent of estimated net income, with a tax rate reduction facility of 50 percent.

Keywords: MSMEs, Tax Facilities, Income Tax, Indonesia

Authors' individual contribution: Conceptualization — Y., E.S., and P.D.I.K.; Methodology — S.M. and E.H.; Validation — A.S.P.; Writing — Original Draft — Y., S.M., and P.D.I.K.; Writing — Review & Editing — S.M. and E.H.; Supervision — Y., P.D.I.K., and A.S.P.; Project Administration — E.S. and E.H.; Funding Acquisition — Y. and S.M.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

Studying small businesses is crucial due to their significant impact on both national and regional economic growth. Small and medium-sized enterprises (SMEs) account for 90% of businesses globally (Lin, 1998). They play a vital role in job creation (Tambunan, 2005). Empirical research indicates that internationally, SMEs are key contributors to employment opportunities (Amril & Sari, 2019; Sari et al., 2022; Lin, 1998; Malecka, 2017; Bhasin & Venkataramany, 2010). The role of micro, small, and medium enterprises (MSMEs) in providing employment is substantial in both developed and developing nations, including Indonesia, where they play a pivotal part in addressing unemployment issues.

MSMEs play a vital role in the economic and industrial development of nations, including Indonesia (Sari & Napitupulu, 2022). In Indonesia, MSMEs contribute significantly to the gross domestic product (GDP). According to Amellya (2023), MSMEs contributed approximately Rp 7,034.1 trillion to the GDP in 2019.

The National Long-Term Development Plan (RPJPN) 2005–2025 outlines strategies to enhance national competitiveness, one of which includes bolstering the domestic economy by leveraging each region's competitive advantages. A key policy to achieve this is the development of MSMEs. The issuance of Presidential Instruction No. 6 of 2007 regarding the Acceleration of Real Sector Development and MSMEs highlights the critical role of MSMEs in national development policies. Presidential Instruction No. 6 of 2007 focuses on accelerating the development of the real sector and empowering MSMEs in Indonesia. It mandates various government bodies, including the coordinating minister for Economic Affairs and other ministers, to implement policies aimed at improving the investment climate, reforming the financial sector, accelerating infrastructure development, and empowering MSMEs (Silitonga, 2023).

MSMEs serve as a barometer for the economic health of a country. This study emphasizes that MSMEs in Indonesia have demonstrated their significant impact on job creation and GDP growth. Data from the Ministry of Cooperatives, Small and Medium Enterprises (2021, as cited in Jayanti et al., 2021) indicates that in 2019, MSMEs contributed IDR 7,031.1 trillion to the GDP at constant prices and IDR 9,580.8 trillion at current prices. This substantial contribution underscores the importance of MSMEs in strengthening the structure of Indonesia's national economy.

MSMEs are crucial to the economic growth and job creation of both developed and developing countries. In the United States, for instance, MSMEs employ approximately 58% of the total non-agricultural workforce and contribute around 51% to the GDP (Lin, 1998). In Australia, there were about 1.9 million MSME units during the 2008–2009 period (Suryani, 2017).

In Indonesia, MSMEs are even more significant, with about 64.2 million MSMEs contributing around 61.07% of the GDP and employing 117 million workers (Gandhi et al., 2021; Hutagaol, 2025). The classification of MSMEs in Indonesia is defined by Law No. 20 of 2008 concerning micro, small, and medium enterprises:

- Micro businesses: Net worth of up to IDR 50 million (excluding land and buildings) or annual sales of up to IDR 300 million.
- Small businesses: Net worth between IDR 50 million and IDR 500 million (excluding land and buildings) or annual sales between IDR 300 million and IDR 2.5 billion.
- Medium businesses: Net worth between IDR 500 million and IDR 10 billion (excluding land and buildings) or annual sales between IDR 2.5 billion and IDR 50 billion.

Additionally, Government Regulation No. 7 of 2021 regarding harmonization of tax regulations classifies businesses based on capital or sales:

- Micro businesses: Business capital up to IDR 1 billion or annual sales up to IDR 2 billion.
- Small businesses: Business capital between IDR 1 billion and IDR 5 billion or annual sales between IDR 2 billion and IDR 15 billion.
- Medium businesses: Business capital between IDR 5 billion and IDR 10 billion or annual sales between IDR 15 billion and IDR 50 billion.

These classifications are essential for tailoring support measures to foster the growth and sustainability of MSMEs, reinforcing their role in the country's economic structure. In 2020, Indonesia had 64.2 million MSMEs, yet their contribution to tax revenue was minimal, totaling only IDR 7.7 trillion. This amount represented just 1.1% of the total income tax revenue of IDR 711.2 trillion. To enhance support for MSMEs, the government has implemented various tax facilities. One significant measure was the introduction of Government Regulation No. 23 of 2018 regarding income tax on income from businesses received or obtained by taxpayers who have certain gross circulation not exceeding IDR 4.8 billion in a single tax year. Under this regulation, eligible taxpayers are subject to a final income tax rate of 0.5% of their gross turnover for a specified period. This regulation replaced the previous Government Regulation No. 46 of 2013. These initiatives are designed to lighten the tax burden on MSMEs, thereby encouraging their growth and contributing more effectively to the national economy.

The Indonesian Government has set specific time limits for corporate taxpayers utilizing the final tax rate of 0.5% as per Government Regulation No. 23 of 2018. For corporate taxpayers structured as limited liability companies (PT), this rate can be used for a maximum of three tax years starting from the establishment and registration of the company at the local tax service office. For cooperatives, limited partnerships (CV), firms, and village-owned enterprises (BUMDes), the duration extends to four tax years from the time the business unit is established and registered at the local tax office.

Once the reduced tax periods conclude, taxpayers must comply with the tax rates specified in Article 17(1)b of Law No. 7 of 1983 regarding income tax, as amended by Law No. 7 of 2021 regarding the harmonization of tax regulations. The standard tax rate is set at 22% of estimated net income. Taxpayers with an annual turnover of less than IDR 50 billion can take advantage of the tax facilities specified in Article 31(E) of Law No. 7 of 1983. This provision allows for a 50% reduction in the tax rate on taxable income derived from gross turnover up to IDR 4.8 billion.

Additionally, under Law No. 7 of 2021 regarding the harmonization of tax regulations, the government provides exemptions for individual taxpayers. Those who calculate their income tax based on Government Regulation No. 23 of 2018 and have a gross turnover of up to IDR 500 million per year are exempt from income tax obligations. To further assist MSME taxpayers, the government has simplified requirements, allowing them to maintain only records instead of full bookkeeping, thus easing their tax compliance process. This simplification helps MSMEs fulfill their tax obligations more efficiently.

The current low tax revenue from MSME taxpayers in Indonesia has sparked the interest of researchers to analyze the treatment of income tax and the facilities provided to MSMEs in emerging markets.

Although many studies have been conducted on MSMEs and their role in the economy, there is still a gap in the literature regarding income tax treatment and facilities provided to MSMEs in emerging markets. Previous studies did not discuss in-depth the impact of tax policies on MSME growth and sustainability.

Therefore, the authors aim to address the following research questions:

RQ1: What various tax incentives does the Indonesian taxation law offer to boost MSME development in Indonesia?

RQ2: Do MSME tax rates in Indonesia reflect the principle of justice for taxpayers?

RQ3: How has the government assisted MSMEs in developing their businesses?

By addressing these research questions, the study is expected to provide in-depth insights into the effectiveness of tax policies in supporting MSME growth and identify areas that need improvement to create a fairer and more conducive business environment for MSMEs in Indonesia.

The research employs a conceptual framework that integrates economic theories on taxation and MSME growth with an analysis of public policy. It focuses on examining how tax policies can either facilitate or impede the development of MSMEs.

The relevance of the study stems from the crucial role MSMEs play in emerging market economies, particularly in terms of job creation and poverty reduction. The significance of this research lies in its potential to offer policy recommendations that could enhance the effectiveness of tax treatments and facilities for MSMEs. By providing these insights, the study aims to contribute to creating a more supportive and efficient policy environment for MSMEs.

The study uses a qualitative method with a case study approach. Data were collected through in-depth MSME, policy document analysis, and literature review. Data analysis was carried out using thematic analysis techniques to identify key patterns and themes.

The key findings of the study are as follows:

1) Current income tax policies are often not tailored to the specific needs of MSMEs, thus hampering their growth.

2) Facilities provided to MSMEs, such as tax incentives and access to financing, are still ineffective due to the lack of socialization and understanding among MSME actors.

3) The main challenges faced by MSMEs include complicated bureaucracy, lack of access to information, and limited resources to utilize existing facilities.

This research is expected to provide deeper insights into how tax policies and facilities can be optimized to support MSMEs in developing markets.

The rest of the paper is structured as follows. Section 2 reviews the relevant literature. Section 3 analyses the methodology that has been used to conduct empirical research. Section 4 presents the findings of the study and Section 5 discusses their implications for policy and practice. Section 6 concludes the paper with recommendations for future research and potential improvements in tax policy to better support the development of MSMEs.

By structuring the paper in this manner, the study aims to provide a comprehensive analysis of income tax treatment and facilities for MSMEs, contributing valuable insights for policymakers and stakeholders.

2. LITERATURE REVIEW

2.1. Definition of agency and principles of taxation

MSMEs are classified as bodies so that MSME income is legally subject to applicable income tax (Gunadi, 2007). Definition of a legal entity regardless of its involvement in business activities, is considered a cohesive unit comprising a group of individuals and/or capital. This category includes a wide array of organizations such as limited liability companies, limited partnerships, other business entities, state-owned enterprises, and regional government bodies. It also covers firms, cooperatives, partnerships, pension funds, associations, foundations, mass organizations, socio-political organizations, and similar bodies. Additionally, institutions, permanent establishments, and other forms of entities, such as mutual funds, fall under this category. Furthermore, Adam Smith stated that tax collection is based on four things, namely: equality, certainty, convenience, and economy (Mueller, 2016).

First, equality. It means that taxes must be fair and even. Principles of fair taxation, should be equitably and uniformly applied, meaning they should reflect each individual's ability to pay and align with the benefits they receive. A fair taxation system ensures that every taxpayer contributes a proportionate amount towards government expenditures, based on their financial capacity and the advantages they gain from public services. This approach helps to distribute the tax burden justly among all members of society, ensuring an equitable allocation of resources.

Second, certainty. According to Adam Smith, certainty means that taxes are not determined arbitrarily, but rather taxes must be clear from the start to all taxpayers and the entire community. For Adam Smith, certainty is more important than justice (Soyode & Oyedokun, 2019).

Third, convenience. It means that when taxpayers must pay taxes should be determined at a time that will not be difficult for taxpayers. Based on this principle, there is very strong support for implementing a tax collection system known as "Pay As You Earn" (PAYE), which means that annual taxes are deducted in installments so that it does not feel like the tax has been paid in full at the end of the year.

Fourth, economy. It means that the collection costs for the tax office and the costs of fulfilling tax obligations or compliance costs for taxpayers should be as small as possible.

2.2. Definition of income

For domestic tax subjects (Subjek Pajak Dalam Negeri, SPDN), countries generally impose tax based on global income (World Wide Income), the income to be taxed is in the form of combined income obtained from within the country and from abroad (Yanto, 2022) by providing tax relief on foreign income, in the form of tax credits. When domestic income is combined with income from abroad, it can be divided into two, namely:

1) Accrual basis is an income obtained from business activities.

2) Cash remittance basis, namely when sent or when received in the country of domicile for income sourced from passive income (dividends, interest, royalties, and capital gains) and income from capital.

Based on the Regulation No. 164/PMK.03/2002 on Foreign Tax Credit, Indonesia applies the accrual basis and remittance basis.

The concept of income formulation was first proposed by Simons in 1938, building on definitions made by Haig in 1921 and Schanz in 1896 (Kasper, 2022; Holmes, 2001; Thuronyi, 1990; Brooks, 2017). The definition of income from Haig and Simons is widely known as the Haig-Simons definition of income (Alm, 2018). Often referred to as the S-H-S definition, it stands for the Schanz-Haig-Simons formulation of income. According to this definition, income for a given period is the sum of a taxpayer's change in real wealth and consumption during this period (Dimitropoulou, 2020).

Dimitropoulou (2020) asserts that taxation based on the S-H-S concept, also known as "Mark-to-Market Taxation", represents an ideal form of income tax due to its fairness, simplicity, and efficiency. Theoretically, the definition of income refers to the concept of income (accretion, source, or trust concept). Gunadi (2009) and Holmes et al. (2001) identify the accretion concept and the source concept as the two main theories used to discuss the definition of income for tax purposes.

In Indonesia, the definition of income is specified in Article 4 of Law No. 36 of 2008. This law states that income, for tax purposes, is an increase in economic capacity received or earned by taxpayers, regardless of its origin — whether from within Indonesia or abroad. This income can be used for consumption or to enhance the taxpayer's wealth, regardless of its form or name. The definition is further connected to Statement of Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan* — PSAK No. 23, which deals with income accounting (Hung, 2000). According to Article 13(1) of Law No. 7 of 1983, the concept of determining income and expenses revolves around two key elements:

1) Realized income: Income is considered realized when a transaction has taken place.

2) Matching costs against revenue: Expenses are matched with the revenue they help to generate.

These principles ensure that income is calculated based on the realization principle, meaning it is recognized when the transaction occurs, providing a clear and accurate reflection of economic activity.

In accounting, revenue is recognized under various conditions:

- Revenue from product sales transactions is recognized on the date of sale, which is when the product is delivered to the customer.
- Revenue from services rendered is recognized when the service has been provided and an invoice has been issued.
- Revenue from the sale of assets other than merchandise (such as the sale of fixed assets) is recognized on the date of sale.
- Rewards obtained from the use of company assets or resources (such as rental income, interest income, or royalty income) are recognized over time or when the assets are used.
- Revenue for construction projects can be recognized using one of two methods: The percentage of completion method or the completed contract method.

According to accounting principles:

- Revenue is recognized when production is completed.
- Revenue is recognized proportionally during the production stage using the percentage of completion method or the completed contract method (for contractor companies).
- Revenue is recognized when payment is received.
- Revenue from consignment sales is recognized after the sale is made by the consignee.
- Revenue for construction projects is recognized by selecting either the completed contract method or the percentage of completion method.

These principles ensure that revenue is accurately reflected in financial statements, providing a clear picture of a company's financial performance.

2.3. Tax rates

Yanto (2022) highlights that the tax rate is the proportion of income that must be paid as tax, applicable to both individual and corporate incomes. It indicates the burden of taxes that taxpayers, whether individuals or corporations, must bear (Yanto, 2022). The tax rates are categorized as follows.

Statutory tax rate: This is a tax rate that has been set in a country's tax law. In Indonesia, the regulation on personal tax rates is contained in Article 17(1)a of Law No. 7 of 2021 concerning income tax which is adjusted to the law regarding harmonization of tax regulations (Gunadi, 2022).

Table 1. Income tax rates in taxable income layers in Indonesia

No.	*Taxable income layers*	*Tax rates*
1	0 to IDR 60,000,000	5%
2	Above IDR 60,000,000 to IDR 250,000,000	15%
3	Above IDR 250,000,000 to IDR 500,000,000	25%
4	Above IDR 500,000,000 to IDR 5,000,000,000	30%
5	Above IDR 5,000,000,000	35%

These classifications demonstrate the progressive nature of the tax system, ensuring that higher incomes are taxed at higher rates. Meanwhile, the corporate tax rate is contained in Article 17(1)b of Law No. 7 of 2021 concerning income tax, namely 28% for 2009, 25% for 2010–2019, for 2020 and thereafter 22% of estimated net income (Basri et al., 2021).

Average tax rate: It is the average of the amount of tax paid from taxable income. With the implementation of a single rate for corporate income tax in Indonesia which came into effect in 2009, the average rate of corporate income tax in Indonesia is 20% for 2022 and beyond.

Marginal tax rate: It is the tax rate imposed on each additional taxable income. If the income tax system applies a single rate (proportional rate/flat rate) then the marginal rate is the same as the statutory rate.

Effective tax rate: That is, the tax rate is the tax rate paid by the taxpayer himself, which can be calculated by dividing the amount of tax owed by the profit obtained by the business unit.

In simple terms, the effective tax rate is calculated based on the formula of tax payable divided by accounting profit. Meanwhile, the amount of tax payable is calculated based on the applicable tax rate in a country multiplied by taxable profit.

According to economists, the calculation of the effective tax rate in a country is not only calculated from the statutory tax rate but also other aspects that determine the amount of tax paid.

In calculating a country's effective tax rate, economists consider other factors that influence it, including depreciation rates on fixed assets, a country's inflation rate, prevailing interest rates, and income tax rates on dividends.

3. RESEARCH METHODOLOGY

This article is compiled using a qualitative method with an in-depth literature study for in-depth understanding so that the research results will be presented in written descriptive form. Qualitative research is a process of receiving specific information with various methods, including interpretive and naturalistic approaches to research subjects (Elliott & Timulak, 2005). Meanwhile, the approach that the authors will use is a case study approach. Case studies are one of the qualitative approaches that will examine certain cases in the context of contemporary real life (Susam-Sarajeva, 2009).

This article stems from the authors' observations of local phenomena. It employs a combination of two methodologies: a literature review and the interpretation of observational data. The literature review seeks to find credible reference sources to underpin the theoretical framework of this paper. The sources include current articles, journals, books, and applicable tax regulations in Indonesia. Additionally, this article incorporates the interpretation of data derived from both qualitative and quantitative research. The qualitative data is sourced from interviews with individuals who have relevant experiences related to the article's main discussion. Meanwhile, the quantitative data is gathered through the analysis of objects and responses from participants involved in the study.

In the article, analyzing income tax and MSME industry tax facilities in Indonesia, quantitative data is gathered from multiple sources. The authors' observational data is integrated with findings from the literature review to achieve two main objectives: validating the literature data and enriching library research with empirical field data.

Group discussions facilitated by the authors contribute to shaping the research report's design. The study employs a subjective approach aimed at thoroughly examining data and research materials. The overall research methodology includes:

- Looking for literature related to the study theme of income tax and tax facilities for the MSME industry in Indonesia.
- Document analysis.
- Overall data analysis.
- Writing research reports.

Utilizing surveys to collect data from a large number of MSME respondents across various regions in Indonesia. The method enables researchers to gain a broader understanding of MSMEs' comprehension and compliance with tax regulations.

Employing policy analysis to evaluate existing tax policies and propose changes that could enhance the effectiveness of tax treatments and facilities for MSMEs. This method involves analyzing policy documents, conducting interviews with policymakers, and performing case studies on policy implementation in the field.

Conducting comparative studies by comparing tax policies and facilities for MSMEs in Indonesia with those in other countries with similar economic characteristics. This method can provide insights into best practices and lessons that can be adopted to improve tax policies in Indonesia.

With the combination of these methods, researchers can obtain more comprehensive and in-depth data on income tax treatment and facilities for MSMEs in Indonesia.

4. RESULTS

4.1. Income tax and tax facilities for MSME corporate taxpayers in Indonesia

Corporate income tax in Indonesia is outlined in Article 17(1)b of Law No. 7 of 1983, which has been amended by Law No. 7 of 2021. This mandates a tax rate of 22% on estimated net income. However, if a company's gross turnover does not exceed IDR 50 billion, Article 31(E) of Law No. 7 of 2021 offers a tax rate reduction. Businesses benefit from a 50% reduced rate on taxable income derived from gross turnover up to IDR 4.8 billion. For newly established MSMEs with turnover less than IDR 4.8 billion, the government simplifies tax compliance by allowing the use of basic record-keeping instead of full bookkeeping. This measure aims to facilitate MSME taxpayers in meeting their tax obligations. Furthermore, Government Regulation No. 23 of 2018 provides additional tax facilities for MSMEs, offering a final corporate tax rate of 0.5% on business turnover (gross income). The application of this rate varies:

- Limited liability companies (PT): Eligible for the 0.5% rate for three years from their establishment.
- Cooperatives, limited partnerships (CV), firms, village-owned enterprises (BUMDes), and individual PTs: Eligible for the 0.5% rate for four years from their establishment and registration with the local tax service office.

After these periods, MSMEs are subject to the standard corporate tax rates as per Article 17(1)b of Law No. 7 of 1983, last amended by Law No. 7 of 2021. These measures reflect the government's commitment to supporting MSMEs by reducing their tax burden and simplifying compliance requirements.

CV Seruni has a motorcycle repair shop business and was registered as a taxpayer on March 3, 2019. The gross circulation obtained by CV Seruni from 2019 to 2025 is as follows.

Table 2. CV Seruni's gross circulation (2019–2025)

Year	*Gross circulation*
2019	IDR 800,000,000.00 (eight hundred million rupiah)
2020	IDR 1,000,000,000.00 (one billion rupiah)
2021	IDR 1,600,000,000.00 (one billion six hundred million rupiah)
2022	IDR 1,800,000,000.00 (one billion eight hundred million rupiah)
2023	Gross circulation (revenue) IDR 2,600,000,000.00 (two billion six hundred million rupiah), while expenses incurred IDR 2,400,000,000.00 (two billion four hundred million rupiah)
2024	Gross circulation (revenue) IDR 5,200,000,000.00 (five billion two hundred million rupiah), while expenses incurred IDR 4,950,000,000.00 (four billion nine hundred and fifty million rupiah)
2025	Gross circulation (revenue) IDR 50,150,000,000.00 (fifty billion one hundred and fifty million rupiah), while expenses incurred IDR 49,850,000,000.00 (forty-nine billion eight hundred and fifty million rupiah)

CV Seruni is subject to final income tax based on Government Regulation No. 23 of 2018 of 0.5% for the 2019, 2020, 2021, and 2022 tax years. Then CV Seruni's final income tax:

Table 3. CV Seruni's final income tax (2019–2022)

Year	*Final income tax*
2019	0.5% x IDR 800,000,000.00 = IDR 4,000,000.00
2020	0.5% x IDR 1,000,000,000.00 = IDR 5,000,000.00
2021	0.5% x IDR 1,600,000,000.00 = IDR 8,000,000.00
2022	0.5% x IDR 1,800,000,000.00 = IDR 9,000,000.00

Because it has been four years, for 2023 and 2024 tax rate of 22% on estimated net income will be imposed by obtaining tax rate reduction facility of 50% imposed on taxable income from the gross circulation portion of up to IDR 4,800,000,000.00.

For 2025, Table 4 shows how the corporate income tax is imposed based on the rate in Article 17(1)b of Law No. 7 of 2021 after the turnover exceeds IDR 50,000,000,000.00 (Hartanto, 2024).

Table 4. CV Seruni's final income tax (2023–2025)

Year	*Propositional income tax*
2023	22% x 50% x IDR 200,000,000.00 = IDR 22,000,000
2024	Portion of taxable income that receives a 50% tax rate reduction facility = (IDR 4,800,000,000.00 / IDR 5,200,000,000.00) x IDR 250,000,000.00 = IDR 230,769,230.00 Corporate income tax = (22% x 50% x IDR 230,769,230.00) + 22% x (IDR 250,000,000.00 – IDR 230,769,230.00) = IDR 25,384,615.00 + IDR 4,230,769 = IDR 29,615,384.00
2025	Turnover has exceeded IDR 50,000,000,000.00; corporate tax will be imposed based on the rate in Article 17(1)b of Law No. 7 of 2021. 22% x estimated net income (profit) = 22% x IDR 300,000,000.00 / IDR 66,000,000.00

4.2. Income tax and tax facilities for individual taxpayers of MSMEs in Indonesia

Through Law No. 7 of 2021 and Government Regulation No. 55 of 2022 regarding adjustment of settings in the income tax sector, the government provides tax facilities for individual taxpayers of MSMEs with a turnover of up to IDR 500,000,000.00 within a year that is not subject to tax. Through this facility, MSMEs whose business turnover has not reached IDR 500,000,000.00 in one tax year are not subject to a final tax of 0.5%, but if the turnover of the MSME business has reached IDR 500,000,000.00, the tax calculation is only imposed on income above IDR 500,000,000.00. Individual taxpayers can use Government Regulation No. 23 of 2018 for seven tax years. The government provides a limit within seven tax years with the hope that individual taxpayers can move up a class, and during this period they have learned to be able to prepare financial reports based on applicable accounting standards.

Mr. A, who owns a convenience store, had a business turnover during 2023 as follows.

Table 5. Business turnover for 2023

No	*Month*	*Business circulation*	*Cumulative business circulation*	*Tax rates*	*Final income tax payable*
1	January	IDR 60,000,000.00	IDR 60,000,000.00	0%	0
2	February	IDR 80,000,000.00	IDR 140,000,000.00	0%	0
3	March	IDR 130,000,000.00	IDR 270,000,000.00	0%	0
4	April	IDR 120,000,000.00	IDR 390,000,000.00	0%	0
5	May	IDR 110,000,000.00	IDR 500,000,000.00	0%	0
6	June	IDR 180,000,000.00	IDR 680,000,000.00	0.5%	IDR 900,000.00
7	July	IDR 220,000,000.00	IDR 900,000,000.00	0.5%	IDR 1,100,000.00
8	August	IDR 150,000,000.00	IDR 1,050,000,000.00	0.5%	IDR 750,000.00
9	September	IDR 130,000,000.00	IDR 1,180,000,000.00	0.5%	IDR 650,000.00
10	October	IDR 90,000,000.00	IDR 1,270,000,000.00	0.5%	IDR 450,000.00
11	November	IDR 120,000,000.00	IDR 1,390,000,000.00	0.5%	IDR 600,000.00
12	December	IDR 110,000,000.00	IDR 1,500,000,000.00	0.5%	IDR 550,000.00
		IDR 1,500,000,000.00			IDR 5,000,000.00

5. DISCUSSION

To aid the growth of MSMEs, the Indonesian government has introduced several tax incentives through its taxation laws. These incentives are outlined in Law No. 7 of 1983 regarding income tax, which was amended by Law No. 7 of 2021 regarding the harmonization of tax regulations.

Additionally, Government Regulation No. 23 of 2018 stipulates that MSMEs benefit from a significantly reduced tax rate of 0.5% on their gross turnover. This measure is designed to alleviate the financial burden on small businesses, enabling them to reinvest their earnings into business development and growth.

These policies reflect the government's commitment to creating a supportive environment for MSMEs, recognizing their crucial role in driving economic development, job creation, and regional prosperity.

An incentive for individual taxpayers is that MSME individual taxpayers can benefit from a low tax rate of 0.5% for seven years.

Incentives for corporate taxpayers are 1) cooperatives, CV, firms, BUMDes, and individual limited liability companies (PT) are eligible for the 0.5% tax rate for up to four years; 2) corporate taxpayers structured as limited liability companies (PT) can utilize the 0.5% tax rate for three years.

Post-incentive period tax rates: After the initial period, MSME corporate taxpayers must adhere to the tax rates outlined in Article 17(1)b of Law No. 7 of 1983. If their business turnover remains below IDR 50 billion, they are eligible for a tax facility detailed in Article 31(E) of Law No. 7 of 1983, which includes a 50% reduction in the tax rate on taxable income from gross turnover up to IDR 4.8 billion.

Additional tax relief: According to Government Regulation No. 55 of 2022, the government offers further tax relief for MSME individual taxpayers.

Those earning up to IDR 500 million annually are exempt from the 0.5% final tax rate. Any income exceeding IDR 500 million within the tax year will be subject to the 0.5% final tax.

These tax incentives are designed to support MSMEs, enhancing their ability to thrive and contribute significantly to the national economy.

Following the self-assessment system currently applied in Indonesia, the MSME tax rates currently in effect in Indonesia reflect the principle of justice for taxpayers. It reflects equality, meaning that taxes are imposed fairly and evenly. It reflects certainty, meaning that the tax is not determined arbitrarily.

The government, specifically through the Directorate General of Taxes, has been actively providing various forms of assistance to help MSME actors grow and thrive. This includes offering business development services such as mentorship and training programs tailored to the needs of MSMEs. Additionally, the Ministry of Cooperatives and SMEs is heavily involved in organizing training sessions and providing free software to assist MSMEs in preparing financial reports, further aiding in their business growth and development.

6. CONCLUSION

The government of Indonesia has provided significant tax relief and differentiated treatment for the corporate income tax applicable to the MSME industry compared to larger companies. Through Government Regulation No. 23 of 2018, the tax rate for MSME industries has been reduced from 1% to 0.5% of business turnover. MSMEs structured as limited liability companies (PT) can benefit from this reduced rate for the first three years after their establishment and registration at the local tax office, while MSME entities such as cooperatives, limited partnerships (CV), firms, BUMDes, and individual PTs are eligible to apply the reduced tax rate for four years. Following this timeframe, these MSMEs must transition to the standard corporate tax rate of 22%, as outlined in Article 17(1)b of Law No. 7 of 1983, which was last revised by Law No. 7 of 2021. Additionally, MSMEs with an annual gross turnover of up to IDR 50 billion can benefit from a 50% tax rate reduction on taxable income, up to IDR 4.8 billion, according to Article 31(E) of Law No. 7 of 1983. Moreover, individual taxpayers within the MSME sector with an annual turnover of up to IDR 500 million are exempt from the 0.5% final tax. This exemption supports small business owners, helping them to reinvest in their enterprises and stimulate economic growth. However, if their turnover exceeds this threshold, the 0.5% tax applies only to income above IDR 500 million for that year.

The government's tax policies for MSMEs in Indonesia, as outlined in Government Regulation No. 23 of 2018, provide significant financial relief by reducing the tax rate from 1% to 0.5% of business turnover, fostering growth and competitiveness in the sector. MSMEs structured as limited liability companies (PT) can benefit from this reduced rate for three years, while cooperatives, limited partnerships, firms, BUMDes, and individual PTs can use it for four years. Post this period, the standard corporate tax rate of 22% applies, with additional incentives such as a 50% tax rate reduction for taxable income portions up to IDR 4.8 billion for those with annual turnovers not exceeding IDR 50 billion. Furthermore, individual MSME taxpayers with turnovers up to IDR 500 million within one year are exempt from the 0.5% final tax, with the tax only applying to income above this threshold. These measures aim to encourage formalization, enhance compliance, and support sustainable economic development, although they require MSMEs to engage in meticulous financial planning and professional tax advice to fully leverage these benefits.

The implications of the results indicate a positive impact on MSME growth and economic contributions. However, the research has limitations, including potential biases in self-reported data and a limited scope of geographic and industry coverage. Future research should explore longitudinal studies to assess long-term impacts, comparative analyses with other countries' MSME tax policies, and the role of digitalization in tax compliance.

Further research into regional disparities and the effectiveness of tax incentives across different MSME sectors will provide valuable insights. Policymakers can then use these insights to refine and enhance support mechanisms for MSMEs.

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