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ANALYSIS OF TAX COMPLIANCE AMONG MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISE (MSME) TAXPAYERS IN CIPATAT SUBDISTRICT

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Abstract: This study aims to analyze the level of tax understanding among Micro, Small, and Medium Enterprises (MSMEs) taxpayers in Cipatat District regarding their tax obligations. This research employed a qualitative approach with a descriptive research design. Data were collected through interviews, observations, and documentation involving five MSME owners operating in various business sectors in Cipatat District. Data analysis was conducted using the Miles, Huberman, and Saldaña interactive model, including data reduction, data display, and conclusion drawing and verification. The findings indicate that the level of tax understanding among MSME taxpayers in Cipatat District remains relatively low. Most respondents did not fully understand MSME tax obligations, the 0.5% Final Income Tax rate based on turnover, tax calculation procedures, tax payment and reporting processes, and had not registered for a Taxpayer Identification Number (NPWP) or used electronic tax systems. Factors influencing this low level of understanding include limited tax socialization programs, educational background, business experience, and access to tax-related information. The main challenges faced by MSME taxpayers are the lack of tax information, limited understanding of digital taxation systems, and insufficient guidance from relevant authorities. Therefore, continuous tax education and socialization programs are needed to improve tax understanding and compliance among MSME taxpayers.

Keywords: Taxpayer Understanding, MSMEs, Taxation

Abstrak: Penelitian ini bertujuan untuk menganalisis tingkat pemahaman wajib pajak pelaku Usaha Mikro, Kecil, dan Menengah (UMKM) di Kecamatan Cipatat terkait kewajiban perpajakan yang berlaku. Penelitian ini menggunakan pendekatan kualitatif dengan jenis penelitian deskriptif. Data diperoleh melalui wawancara, observasi, dan dokumentasi terhadap lima pelaku UMKM di Kecamatan Cipatat yang bergerak di berbagai bidang usaha. Analisis data dilakukan menggunakan model Miles, Huberman, dan Saldaña yang meliputi reduksi data, penyajian data, serta penarikan kesimpulan dan verifikasi. Hasil penelitian menunjukkan bahwa tingkat pemahaman wajib pajak pelaku UMKM di Kecamatan Cipatat masih tergolong rendah. Sebagian besar responden belum memahami adanya kewajiban pajak bagi UMKM, tarif Pajak Penghasilan Final UMKM sebesar 0,5% dari omzet, tata cara perhitungan, pembayaran, dan pelaporan pajak, serta belum memiliki NPWP dan belum pernah menggunakan sistem perpajakan elektronik. Faktor-faktor yang memengaruhi rendahnya pemahaman tersebut antara lain kurangnya sosialisasi perpajakan, tingkat pendidikan, pengalaman usaha, dan keterbatasan akses informasi. Adapun tantangan yang dihadapi meliputi minimnya informasi perpajakan, rendahnya pemahaman terhadap sistem perpajakan digital, serta kurangnya pendampingan dari pihak terkait. Oleh karena itu, diperlukan peningkatan sosialisasi dan edukasi perpajakan kepada pelaku UMKM secara berkelanjutan.

Kata Kunci: Pemahaman Wajib Pajak, UMKM, Perpajakan

Introduction

In Indonesia's current economy, Micro, Small, and Medium Enterprises (MSMEs) play a vital role in generating state revenue. MSMEs are businesses owned by individuals or business entities that meet specific criteria, as regulated by Law of the Republic of Indonesia No. 20 of 2008 concerning MSMEs (Ministry of Finance, Directorate General of Taxes). Data on cooperatives and SMEs indicates that there are currently 64.2 million MSMEs, contributing 61.07% to the Gross Domestic Product (GDP)—equivalent to IDR 8,573.89 trillion (Coordinating Ministry for Economic Affairs of the Republic of Indonesia). Furthermore, the Ministry of MSMEs projects that the number of MSMEs in Indonesia will reach 66 million business units by May 2025, representing growth from the previous year, given that 64.2 million units were recorded at the end of 2024.

This scale of contribution places MSMEs at the center of Indonesia's economic development agenda, as reflected in Cindy Yolanda's (2024) description of the sector as a primary driver of national economic growth—absorbing a large share of the workforce, distributing income across regions, and sustaining household consumption even during periods of macroeconomic pressure. Yet the sheer size of the sector's economic footprint stands in contrast to its position within the tax base: because most MSMEs operate as micro-scale, often informal or semi-formal businesses, their individual tax contributions remain modest relative to their aggregate economic weight, and a substantial share are believed to fall outside the formal tax net altogether. This gap between economic contribution and tax participation forms the broader backdrop against which government efforts to simplify and expand MSME taxation—discussed in the following paragraphs—should be understood.

To ensure the sustainability of this sector, the government has implemented policies for MSMEs that include a final income tax (PPh) and streamlined tax administration through digital systems such as e-registration, e-Billing, e-Filing, and the DJP Online application. The government issued a policy reducing the Final Income Tax (PPh) rate to 0.5% for micro, small, and medium enterprises (MSMEs). This rule is set forth in Government Regulation (PP) Number 23 of 2018 concerning Income Tax on Business Income Received or Earned by Taxpayers with Certain Gross Turnover—replacing Government Regulation Number 46 of 2013—and became effective on July 1, 2018. Essentially, PP 23 of 2018 governs the imposition of the Final Income Tax under Article 4 Paragraph (2) for taxpayers with a gross turnover (revenue) of up to IDR 4.8 billion within a single tax year. This regulation supersedes Government Regulation Number 46 of 2013, which had been in effect for five years since its implementation on July 1, 2013 (Ministry of Finance/Directorate General of Taxes). This policy is expected to enhance taxpayer understanding and compliance regarding the exercise of their tax rights and obligations.

It is important to note, however, that reducing the tax rate and simplifying the administrative mechanism are not, by themselves, sufficient conditions for compliance. Indonesia's tax system operates on a self-assessment principle—commonly referred to in Indonesian tax literature as the asas pemungutan pajak (Directorate General of Taxes)—under which taxpayers are responsible for calculating, paying, and reporting their own tax obligations without prior notification or assessment from the tax authority. A self-assessment system of this kind places a considerably higher demand on taxpayer understanding than a system in which the tax office calculates and bills the amount owed, since the taxpayer must first know that an obligation exists, understand how it is calculated, and be capable of using the reporting channel provided before compliance can occur at all. Consequently, the ease of the 0.5% Final Income Tax rate and the availability of digital platforms such as DJP Online represent only one half of the compliance equation; the other half—whether MSME taxpayers actually understand that these instruments apply to them and know how to use them—is precisely the gap this study sets out to examine.

MSMEs in Cipatat District play a vital role in the local economy, spanning sectors such as food, handicrafts, fashion, services, and others. These enterprises are crucial drivers of the community's economic activity. However, despite the significant number of MSMEs, their understanding of tax obligations is often suboptimal. Sumardi (2023) notes that many MSMEs do not fully grasp tax calculation rules and procedures. This situation can be attributed to several factors, including low tax literacy, insufficient government outreach, limited access to information, and the perception that taxes are a burden on business owners.

This condition is not unique to Cipatat District; Geral Samuel's (2022) juridical analysis of tax compliance levels among the Indonesian public similarly points to a persistent gap between the formal obligations set out in tax regulations and the public's actual awareness and observance of them, particularly outside major urban centers where access to tax offices, professional advisors, and formal financial institutions is comparatively limited. What makes the Cipatat case worth examining specifically, however, is the diversity of business sectors operating within a single sub-district—food, handicrafts, fashion, and services—which allows the question of tax understanding to be observed across different types of micro-enterprise rather than within one narrow business category. If low understanding is found consistently across these varied sectors, it strengthens the inference that the underlying cause lies in the surrounding information and outreach environment rather than in characteristics specific to any single line of business.

Taxpayer awareness has a significant and positive impact on MSME tax compliance. This demonstrates that taxpayers must possess a high level of tax awareness. Therefore, analyzing the level of understanding among MSME taxpayers in Cipatat District is essential to determine the extent to which government policies are accepted and understood by business owners. Based on the foregoing, it is important to conduct research titled "Analysis of Taxpayer Understanding Among Micro, Small, and Medium Enterprise (MSME) Operators in Cipatat District" to gain insight into the level of taxpayer understanding, the factors influencing it, and its implications for MSME tax compliance in the area.

While previous studies—such as those by Anita and Maulani (2020), Cahya and Purwanti (2023), and Assaja'ah and Khotimah (2025)—have generally used quantitative survey methods to measure the statistical relationship between tax awareness, understanding, and compliance among registered taxpayers, comparatively less attention has been paid to the qualitative, lived experience of MSME operators who have not yet entered the formal tax system, including those without an NPWP or any prior contact with tax authorities. This study seeks to address that gap by examining, in depth, how a small group of MSME owners in one sub-district understand—or fail to understand—their tax obligations, and by tracing the specific circumstances, backgrounds, and barriers that shape that understanding. In doing so, the research is intended to complement the existing quantitative literature with a more contextual account of why the gap in MSME tax understanding persists, and to offer practical, locally grounded recommendations that can inform outreach and education efforts in Cipatat District and in comparable sub-district areas elsewhere in Indonesia.

Methods

This study employs a qualitative approach with a descriptive method, aiming to describe and analyze the level of understanding regarding applicable tax obligations among taxpayers operating micro, small, and medium-sized enterprises (MSMEs) in the Cipatat District. The research goes beyond merely assessing the level of understanding; it also examines the context by considering the MSME operators' backgrounds, business experience, and access to information and outreach regarding taxation.

According to Yadav (2022), the qualitative approach emphasizes the collection of in-depth and detailed data through various methods such as interviews, observations, and case studies. By employing a qualitative approach, researchers can gain deeper insight into the experiences, challenges, and perspectives of MSME operators regarding taxation—aspects that cannot be fully captured through quantitative data alone. Meanwhile, the analysis is conducted in three main stages: data reduction, data display, and drawing conclusions followed by result verification.

This study employs a descriptive qualitative research design. It aims to describe a phenomenon or condition in a systematic, factual, and accurate manner. According to Sugiyono (2017), descriptive research relies on data collection to characterize the subject of study without influencing or manipulating the variables under investigation. In this study, the researcher outlines the level of understanding among MSME taxpayers in Cipatat District regarding various taxation aspects—such as the definition and functions of taxes, applicable tax types for MSMEs, tax rates, and obligations concerning tax payment and reporting.
Information was gathered directly from MSME operators and subsequently analyzed narratively to provide a comprehensive overview of the taxpayers' level of understanding. The study does not aim to test hypotheses or statistically determine cause-and-effect relationships; rather, it seeks to provide an in-depth picture of the reality regarding MSME taxpayers' understanding in Cipatat District and the factors influencing that understanding.

Results And Discussions

Taxpayer Level of Understanding

Based on interviews conducted with five MSME owners in Cipatat District, their level of understanding appears to be relatively low. This is evident from the fact that respondents were unaware of taxes applicable to MSMEs, the 0.5% tax rate based on turnover, and the procedures for tax payment and reporting. Furthermore, the respondents did not possess a Taxpayer Identification Number (NPWP) and had never utilized online tax systems such as e-Filing and e-Billing. Some respondents were familiar only with general taxes—such as vehicle and property taxes—but lacked an understanding of specific tax obligations for MSMEs. This indicates that the MSME owners' tax knowledge is limited to information encountered in daily life. It is this lack of understanding that prevents them from properly fulfilling their tax obligations.

This pattern points to a deeper distinction between two forms of tax knowledge that are rarely separated in everyday discussion: formal tax literacy, which concerns the technical rules of calculation, payment, and reporting, and experiential tax awareness, which is built from taxes people encounter directly and repeatedly, such as vehicle or property tax. Because the Final Income Tax under PP 23 of 2018 is self-assessed, turnover-based, and administered largely through digital channels, it rarely intrudes on a respondent's daily routine in the way a vehicle tax renewal or a land certificate does. The absence of a recurring, tangible "trigger" appears to leave this obligation invisible to owners who are otherwise reasonably tax-aware in a general sense. This distinction helps explain why low understanding in Cipatat District is not simply a matter of ignorance but a structural gap between how MSME taxation is designed to work and how ordinary taxpayers actually experience taxation in daily life.

The fact that none of the five respondents had registered for an NPWP or ever used e-Filing or e-Billing is significant beyond the surface indicator of "low understanding": it signals a complete disengagement from the formal tax administration system rather than a partial or imperfect one. This finding is consistent with Cahya and Purwanti's (2023) study of MSME operators in Jogorogo District, where similarly low comprehension of PP 23 of 2018 was recorded despite the policy having been in force for several years. The recurrence of this pattern across two geographically distinct districts suggests that the problem is unlikely to be a localized anomaly of Cipatat District alone, but rather reflects a broader implementation gap in how the simplified 0.5% Final Income Tax policy has reached micro-scale taxpayers outside major urban centers. It also implies that correcting misinformation through outreach alone may be insufficient; taxpayers who have never registered for an NPWP first need a pathway into the formal system before deeper technical understanding of calculation and reporting can be meaningfully built.

Factors Influencing Taxpayer Understanding

Research findings indicate several factors influencing the tax understanding of MSME operators in Cipatat District. The first factor is the lack of tax-related outreach from relevant authorities; all respondents stated that they had never received direct guidance or information from tax officials or related parties. The second factor is the respondents' level of education. Most respondents acknowledged that education levels influence tax comprehension; those with limited education tend to struggle to understand applicable tax regulations and systems. Additionally, business experience and access to information play a role, as respondents with prior work or administrative experience generally demonstrate a better understanding than others. Finally, a lack of interest in seeking out tax information is another contributing factor to the current level of understanding.

These four factors are best understood not as isolated, independent causes but as mutually reinforcing conditions that together produce a self-perpetuating knowledge gap. Because outreach from tax authorities has been absent, the responsibility for acquiring tax knowledge effectively falls back onto the individual MSME owner; yet the same respondents who lack outreach also tend to report limited formal education and low information-seeking behavior, meaning the very capacity needed to compensate for the absence of official guidance is itself constrained. In other words, the group that would benefit most from active outreach is also the least equipped to seek out information independently, which allows the gap in understanding to persist and, without intervention, to widen over time rather than close on its own. This dynamic is consistent with Assaja'ah and Khotimah's (2025) finding that awareness, understanding of tax regulations, and socialization jointly determine compliance—removing any one element, particularly socialization, weakens the entire chain that leads a taxpayer toward voluntary compliance.

The role of business experience is also worth examining more closely. Respondents with prior administrative or employment experience—such as having previously worked in a formal office setting—demonstrated noticeably better comprehension than those whose entire working life had been confined to informal, cash-based trade. This suggests that tax understanding among MSME owners is frequently a by-product of unrelated administrative exposure rather than the result of any deliberate tax education. Where such incidental exposure is absent, owners have no substitute pathway to acquire the same baseline literacy, which reinforces the case made by Anita and Agustine (2025) that accounting understanding and tax awareness move together: without basic bookkeeping or administrative habits, the abstract concept of a turnover-based Final Income Tax has very little to attach itself to in an owner's day-to-day experience of running the business.

Challenges Faced by MSMEs

MSME operators in this district face several challenges regarding this matter. The primary challenge is a lack of information and outreach concerning MSME taxation. Respondents reported never having received a direct explanation regarding MSME tax rates, turnover thresholds, or tax payment procedures. Furthermore, online tax systems—such as e-filing and e-billing—pose obstacles because the operators do not understand how to use them. A lack of training and guidance from relevant authorities also makes it difficult for them to pay or report their taxes.

The difficulty MSME operators report with e-Filing and e-Billing deserves to be read as more than a simple technology-adoption problem. As a sub-district area whose economy still leans heavily on food, handicraft, fashion, and other small-scale service sectors, Cipatat District does not necessarily offer the same density of digital infrastructure, assisted-service counters, or peer familiarity with online government platforms that operators in larger urban centers can draw on informally. Where a digitally literate neighbor, employee, or family member is not readily available to walk an owner through DJP Online, e-Filing, or e-Billing, the digital tax system effectively becomes inaccessible regardless of how simple its interface is designed to be. This mirrors the concern raised by Manjaleni (2025), whose research links the quality of digital tax administration directly to individual taxpayer compliance—suggesting that digitalization intended to simplify tax administration can, without adequate local assistance, instead raise the barrier to entry for taxpayers who are not yet digitally confident.

A second, more structural challenge lies in the reach of tax administration itself. The consistent finding that none of the five respondents had ever received direct guidance from a tax official points to an institutional presence that remains largely reactive—available to taxpayers who proactively visit a Tax Service Office (KPP)—rather than proactive in seeking out unregistered or under-informed MSME operators in sub-district areas. For a policy such as PP 23 of 2018, which depends on voluntary registration and self-assessment to function as intended, this gap between the design of the policy and the administrative capacity to reach every eligible micro-business converts what should be a straightforward compliance obligation into a matter of chance, dependent on whether an individual owner happens to encounter tax information through other means.

Efforts to Enhance Understanding Among MSME Taxpayers

One way to improve the understanding of MSME taxpayers in this district is by regularly conducting tax outreach and education programs. These initiatives could be led by the government, tax officials, village authorities, or even local youth organizations, covering topics such as the importance of taxes, applicable MSME tax rates, and demonstrations on how to make payments and file tax returns. Furthermore, training on online systems—such as e-Filing and e-Billing—is essential to simplify the process of fulfilling tax obligations, as is the provision of direct guidance to MSME owners, particularly those who lack an understanding of taxation. Interview results indicate that a number of respondents are willing to participate in tax training if it is offered, demonstrating a genuine desire among MSME owners to better understand tax matters. Consequently, collaboration among tax officials, the government, and the community is crucial to enhancing tax awareness and compliance among MSME owners in Cipatat District.

Each proposed intervention is likely to be most effective when matched to the actor best positioned to deliver it, rather than treated as a single undifferentiated "socialization" activity. Tax officials from the local KPP are best placed to explain the technical mechanics of the 0.5% Final Income Tax and to walk owners through NPWP registration and the e-Filing/e-Billing platforms directly, since this requires authoritative, hands-on demonstration. Village-level authorities and local youth organizations, by contrast, bring proximity and existing trust that outside institutions typically lack, making them a more credible channel for the initial step of simply raising awareness that a tax obligation exists at all. Business associations or informal MSME groups can then serve as a multiplier once a core group of owners has been trained, allowing knowledge to circulate through peer networks rather than depending entirely on scarce direct contact with tax officials. Distributing responsibility in this way is more realistic than expecting a single outreach program to address every dimension of the problem simultaneously.

Sustainability is another dimension that deserves attention beyond a single round of outreach. A one-time socialization event is unlikely to close a gap that, as discussed above, has built up through years of limited contact between MSME owners and the formal tax system; without follow-up, newly introduced knowledge tends to fade once owners return to routine business activity. Continuous, staged mentoring—an initial introductory session, followed by hands-on registration assistance, and later by periodic check-ins during actual filing periods—would better match the practical difficulties respondents describe than a single lecture-style session. Encouragingly, the willingness a number of respondents expressed to participate in training if it were offered suggests that low understanding in Cipatat District stems primarily from limited access and outreach rather than from active resistance or indifference toward taxation.

This distinction matters for policy design: it indicates that the intervention needed is fundamentally one of access and continuity, not one of persuading a reluctant audience, which should make sustained outreach programs comparatively easier to design and more likely to succeed once resources are committed.

Theoretical and Practical Implications

*T*aken together, the findings from Cipatat District reinforce a point made across the literature cited in this study—by Anita and Maulani (2020), Anita and Agustine (2025), and Assaja'ah and Khotimah (2025) alike—that tax awareness and tax understanding function as a precondition for compliance rather than a byproduct of it. Where earlier quantitative studies establish that awareness and understanding statistically predict compliance among registered taxpayers, the present qualitative findings help explain what happens upstream of that relationship: when foundational understanding is absent, as it was for all five MSME owners interviewed, taxpayers do not enter the compliance equation at all, since compliance presupposes registration and basic comprehension of what is owed. This suggests that policies aimed at improving MSME tax compliance cannot rely solely on simplifying rates or digitizing administrative channels, as PP 23 of 2018 and the DJP Online ecosystem have done; these measures address the mechanics of compliance but not the antecedent problem of whether taxpayers understand that an obligation exists in the first place.

Practically, the findings suggest that improving MSME tax compliance in semi-rural districts such as Cipatat requires treating outreach, registration assistance, digital-literacy support, and continuity of guidance as a single integrated program rather than as separate, disconnected initiatives. Because the study's five respondents span different business sectors—food, handicrafts, fashion, and services—yet arrive at strikingly similar gaps in understanding, the underlying problem appears to be systemic to how MSME taxation has been communicated in the area rather than specific to any one type of business. This points toward district-wide, sector-agnostic outreach as a more efficient starting point than sector-specific interventions, with more tailored, sector-specific guidance layered in only once baseline awareness of MSME tax obligations has been established across the operator community.

Conclusion

This study indicates that the understanding of taxation among MSME operators remains relatively low; many entrepreneurs are still unaware of tax regulations—specifically the 0.5% tax rate for MSMEs stipulated in Government Regulation No. 23 of 2018. Factors influencing this level of understanding include education, prior experience with taxation, and access to tax-related information, as well as a lack of outreach, education, and guidance from the government or tax officials, all of which contribute to the limited tax knowledge among these business operators.

The challenges faced by MSME operators include limited outreach regarding taxation, a lack of understanding of online tax systems, and restricted access to information on tax regulations specific to MSMEs—all of which hinder their comprehension of taxation matters.

Efforts to enhance the understanding of MSME operators include increasing the frequency of tax-related outreach and education, providing training on online tax systems, and offering specialized guidance; furthermore, collaboration among the government, relevant stakeholders, and the public is essential to boost tax awareness and compliance among MSME operators.

Local Tax Service Offices (KPP) and the Directorate General of Taxes are encouraged to further enhance outreach and education efforts, as well as expand access to tax-related information. MSME players are encouraged to be more proactive in seeking tax information through social media, news outlets, and their daily environments. Future researchers are encouraged to expand the scope of this study to obtain more accurate and in-depth results.

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