

INDONESIA TAX SIMPLIFICATION: INDONESIA MICRO-SMALL-MEDIUM ENTERPRISE TAKES ON GOVERNMENT REGULATION NO. 23 YEAR 2018 AND GOVERNMENT REGULATION NO. 46 YEAR 2013 VERSUS NORMS CALCULATION AND GOVERNMENT TAX AUDITS

Wiwiek Mardawiyah Daryanto
Christian Surjadi

ABSTRACT

In order to maintain the high GDP growth and remain competitive, the government of Indonesia needs to go hand-in-hand with companies to support the nationwide outcome while still retaining the business interest for each of the companies. Although in practice, the government regulation that aimed at making companies ease in terms of doing business, sometimes maybe backfired and produce uncertainty among the business owners. It is even especially vital for the government of Indonesia to support Micro-Small-Medium Enterprise (MSME) companies, seeing as most of the business operations are dominated by them and approximately accounting the 60% of Indonesia's GDP. MSME in Indonesia has three options to do their tax returns, one is by Law, using Article 17 of Income Tax Law, the second is by a Norms Calculation, and the last one is by the Government Regulation Number 23 the Year 2018. This study specifically aimed to discuss the impact of Government Regulation Number 23 the Year 2018 (PP23) with its implementing regulation in the Ministry of Finance (MoF) Implementing Regulation Number 99 the Year 2018 juncto. Government Regulation Number 46 the Year 2013 (PP46) that is on 'paper,' purposing themselves to help the MSME role in terms of formal economy practice and ease of the business. The research is hoping to answer which government regulation MSME prefers between PP23, PP46, and Norms. Moreover, to give out a small picture on how willing MSME to pay their due taxes concerning tax audits.

Key words: Income Tax, Presumptive Tax, MSME, Government Regulation.

1. INTRODUCTION

The importance of tax regulation clarity is by no means one of a great matter to attract foreign investments. Especially for a developing country that relies a lot upon foreign investment such as Indonesia that made up 30% of its Gross Domestic Product (GDP) funded by foreign investments (World Bank 2020) and approximately 60% of overall GDP contributed from Micro-Small-Medium Enterprise (MSME). According to the Asia Pacific Foundation of Canada (2018) research, 57 million MSME operates in Indonesia in 2017 and at around 97% of the total workforce currently employed by them while making up 99% of all business operations in Indonesia. Furthermore, published under Statista in 2019, shows that 32% of MSME entrepreneurs in 2018 believed that Domestic Government is one of the barriers to their company growth.

Under President Jokowi's direction, the Government of Indonesia (GOI) has implemented several structural reforms that aimed at the future growth of the country. Although some might argue some of the policies undertaken are quite controversial for the developing country or too naive, the Jokowi approval rating remains relatively steady throughout the year 2015 – 2017, according to FT Confidential Research (2017).

Jokowi, with his notable cabinet member, Sri Mulyani, as the Ministry of Finance of Jokowi Cabinet, has committed to increasing the Ease-Of-Doing-Business (EODB) ranks among the South-East-Asian (SEA) countries.

On Jokowi's administration, Indonesia is experiencing a constant GDP Growth at around 5% per annum for the year of 2015 – 2018 (World Bank 2020). While Indonesia's Ease of Doing Business (EODB) ranking is climbing up drastically throughout the year 2014 – 2017 (#120, #106, #91 and #72).

All of that prompted Jokowi announcement in 2017, declaring his target for the country EODB rank in 2019 to be at the top 40 according to the government's general meeting of *Rapat Terbatas Akselerasi Peningkatan Peringkat EoDB* at 19 March 2017 (Sekretariat Kabinet Republik Indonesia, 2017).

However, in 2018, the Indonesia EODB ranking set back into #73, and it remained stagnant for the year 2019. Notably, one of the indicators of EODB rank placement called "Paying Taxes" measures the Total Tax and Contribution Rate and the number of Tax Payments (Doing Business 2020).

When we take a look at 2018, the Institute of Indonesia Association *Ikatan Akuntan Indonesia* (IAI) has finally passed Financial Accounting Standard for MSME *Standar Akuntansi Keuangan Entitas Mikro Kecil dan Menengah (EMKM)* (SAK EMKM) effectively on 1 January 2018. The purpose is to fulfill the need for standardized financial accounting reporting for MSME that could not yet meet the criteria of Standardized Accounting report from Indonesian Accounting Standards for Non-Publicly Accountable Entities *Standar Akuntansi Keuangan Entitas Tanpa Akuntabilitas Publik* (SAK ETAP) (IAI Global 2020).

In the year 2019, GOI also implemented Government Regulation number 23 *PP No.23 Tahun 2019* (PP23), enforced from July 2019, that resides and replaces from Government Regulation number 46 *PP No.46 Tahun 2013* (PP46). The Government regulation is eliminating the need of full BookKeeping enforcement for MSME in the yearly Tax Returns Report *Surat*

Pemberitahuan (SPT), and the need to do a total Tax Returns Calculation according to the Law with just paying a percentage of the Gross Income of the MSME with a little twist from both of the regulation.

Both PP23 and PP46, while most are the same, have a distinct difference in some wording.

Some of the wording problem in PP46 has made some of the MSME taxpayer forced to partake the PP46 facilities if the last year Tax Return filings of MSME has a Gross Profit lower than IDR 4,8 Billion. That is why the Government Regulation is also be known to be quite controversial since one might argue that it violates one of the Principles of Law in GOI that is *Lex Superiori derogate Legi Inferiori*. Meaning the superior of higher law governing, in this case, Law Income Tax of Indonesia, cannot be put aside from the inferior or lower governing law, in this case, the Government Regulation or PP.

PP 23 wording is much better, and 'fixed' from the previous PP46 by making clear that the Government Regulation as a facility rather than enforceable. However, there is also a downside for PP23 compared to PP46. PP46 back then is known to last indefinitely, but PP23 is stated to last only to a limited amount of time.

2. GENERAL UNDERSTANDING AND RESEARCHER'S OPINION ON THE MATTER

2.1 Indonesia Tax System

Income tax law in Indonesia has been amended four times plus one separate income tax law of Tax Amnesty (TA) in 2016. Both Personal and Corporate Income taxes has its positive elements and was based on a modern taxation system (Ikhsan, Trialdi, & Syahrial, 2005). Tax collection characteristics of enforceable are governed and be written based on the Indonesia Consitution of *Undang – Undang Dasar 1945* Article 23 A.

Indonesia has ever since used a three-hybrid system in its tax collection. One is called official assessment in which the government decides by themselves what is the amount tax payable for a given transaction of goods and services or income. The second being the self-assessment system in which the taxpayer has the privilege to file and pay their taxes according to the imposing law and regulation. Furthermore, lastly, the third one is known as the withholding system, whereas the third party that is not the taxpayer subjected or the government tax office is the one conducting the tax collection.

Indonesia also has a presumption tax collection system called "*Perhitungan Norma*" or Norms Calculation. It is a presumptive tax collection system that does not consider all the expenses but instead using a fixed tax rate that varies among the subject of work, mainly based on the official Business Field Classification under Directorate General Taxation Decree Number 321-year 2012. The facility of Norms Calculation in the yearly tax returns (SPT) is limited only for MSME under the definition of Law No. 20 the Year 2008.

Norms Calculation's purpose is to help MSME simplify their tax returns filing and thus avoid the need to do full Bookkeeping for the business operation.

2.2 Business Field Classification

Indonesia's Tax return calculation also takes into consideration each of the Business Field Classification *Klasifikasi Lapangan Usaha* (KLU) based on Directorate General Taxation (DGT) Decree Number 321 the Year 2012 (KLU2012). There are five classification structures of KLU2012, namely:

a. Category

It shows the primary division of the business economy. It represents Indonesia's business category into 21 categories in the alphabetical letter from A to U.

b. Main Type

The main type shows a continuing description from Category with a rule stated on the Directorate Decree be a maximum of 5 Main Type for each Category and consisted of two digits numbers except for Processing Industry.

c. Type

As a continuation of Main Type, Type represented with three digits of numbers in the Business Field Classification with the first two digits serves the Main Type. Rather than sorting out the overall business industry, Type is categorizing the business's processes for each of the Main Types.

d. Sub Type

Subtype represents a more specific business operation of Type. It represents the economic activity for each of the related Types. Subtype represented with four digits with the first two digits shows the Main Type and the third shows Type. For each of every type, there is a maximum of 9 Sub Types.

e. Group

The last digit of Business Field Classification is called Group. It represented with five numbers with the first four-digit represent the prior classification of Main Type, Type, and Sub Type. Some of the Group are indifferent with Sub Type; in this case, the SubType is going to use number "0".

2.3 Norms Calculation

Norms calculation regulation is a presumptive tax method that has been revised a few times to match the latest current state of the Indonesian economy. With being the latest norms calculation is regulated by the Directorate of General Taxation Regulation Number 17 the Year 2015.

The regulation stated that the norms calculation is only applicable for the taxpayer that has an income below IDR 4,8 Billion and not receiving income that applies to final tax calculation. This final tax calculation refers to the final withholding and non-withholding tax that applies to the gross turnover of an income without considering the expenses.

The tax rate of norms calculation is following the Article 17 of Income Tax law, and the presumptive net profit is differentiated based on which location and what business operation does the income derived from while still considering the Non-Taxable Income for each of the taxpayer.

Norms Calculation

Gross Turnover	A	Derived from the actual gross revenue of the business
Presumptive Net Income	B %	Derived from Tax Regulation for Norms
Net Income	C	A x B
Non-Taxable Income	D	The consideration of the subject's marital status and dependents based on Income Tax Law
Taxable Income	E	C - D
Article 17 Tax Rate	X	Progressive from 5% to 30% for Individual Person or 25% for Companies

2.4 Government Regulation Number 46 Year 2013 (PP46) and DGT Regulation Number 32 Year 2013

Government Regulation Number 46 or more familiar being known as PP46 is meant to be a facility to help MSME taxpayer that has a turnover below IDR 4,8 Billion in doing their tax return and simplify the need of doing the full bookkeeping of their business operation. It is an Indonesia presumptive tax method that applies a final 1% tax rate on the gross turnover of a business and is exempted from Tax Withholding deduction without considering all the related expenses. Meaning the tax payment still must be paid even if the business for that concerning fiscal year is receiving a loss. That fiscal loss also cannot be compensated and be brought forward to the next fiscal year (Article 8) if the applicable concerning MSME decided to use the PP46 facility.

The eligible taxpayer based on the regulation that wants to exercise the use of PP46 facility is compulsory to submit a written letter of request to the concerning tax service office with the format stated in Directorate General Taxation Regulation Number 32 Year 2013 to get the Letter of Exemption (*Surat Keterangan Bebas*).

While it applies to most MSME businesses, PP46 regulation stated the facility does not apply for a taxpayer that derives their income from self-employment work concerning personal services. Meaning, professions such as Consultant, Notary, Doctors, and the other personal service work based on Income Tax Law cannot use the facility of PP46. Furthermore, it also does not apply to a Permanent Establishment (PE).

Although on paper PP46 was seeming (or supposed to be) as a facility for the concerning taxpayer because it is a Government Regulation and has an inferior governing power from Law, in the actual practice, it is quite different. Many MSME that has a turnover below IDR 4,8 Billion are being forced to use PP46 without regard to their application to the tax service office to use the PP46 facility.

Some of the actual practice is also hurting the government side of tax collection by the abused of legal entities; The scheme of separating an income of one legal entity to multiple legal entities in order to apply the use of PP46.

Both the government and taxpayers are hurting from the lack of clarification of that sudden government regulations. There are legal actions that can be assessed by the taxpayer's side in order to get legal certainty, but again, looking at the target regulation to the MSME, we can expect on how far they will pursue the legal action in tax court.

2.5 Government Regulation Number 23 Year 2018 (PP23) and MoF Implementing Regulation No. 99 Year 2018

On 8th June 2018, finally, PP46 was replaced by the Government Regulation Number 23 Year 2018 (PP23). The regulation is valid for the income from July 2018 onwards.

Although most of it the same, some improvements are visible from the wording in PP23 and the quick reaction of MoF Implementing Regulation for the Government Regulation that just happen in just two months after the enactment of PP23.

The most crucial distinction between PP23 and PP46, namely PP23 presumptive tax, is 0,5 percent compared to 1% of PP46. On top of that, the subject is explicitly defined in Article 3 that the regulation does not apply to the taxpayer that chose to use using the Law Calculation Article 17 of Income Tax Law. Furthermore, the regulation stated the facility of PP23 only serves for a limited amount of time depending on the legal form of the business: 7 years for Individual Taxpayer (OP), four years for Non-Limited Liability Company (*CV, Firma, Koperasi*) and three years for Limited Liability Company (*PT*). The time limit counted from the date of the government regulation first becomes effective for the current standing taxpayer. For the taxpayer founded post-government regulation, the time limit is counted since the date first that legal entity founded.

3. METHOD & OBJECTIVES

3.1 Research Method

The chosen method for this study is the Qualitative research method. A broad range of non-numerical results present a variety of other methods of analysis that don't interfere with the research context (Trochim, 2006). The research produces a real world based data that needs to be relevant to the outcome and employing essential steps in survey research that can be in the form of: Face-to-face interviews, Telephone interviews, and Postal Questionnaires (Kelley, Clark, Brown, & Sitzia, 2003). Therefore, the analyst can examine and understand the problem on the real subject that conducted in an actual setting (Creswell, 1994) and properly identifying the intangible conditions that may not be apparent (Ritchie & Lewis, 2003).

3.2 Research Objectives

The objectives of this research are to present the MSME business owner's state of mind in regarding the final tax calculation in Indonesia. Then draw a conclusion based on the findings from both the government officials and the business owners regarding the current tax simplification conduct.

3.3 Data Gathering

The data gathering in this research include both primary and secondary data. The methods used on this study comprises: interviews, attending and recording seminars on the socialization of the government regulation, written discussion with the tax auditor functional officials, and targeted surveys that specially aimed only on the relevant business entrepreneurs with a yearly gross turnover below than IDR 4.8 Billion. The researcher has conducted the interviews with no structural method to give the informant freedom to express their concern. The researcher has a transcript and record of the data used in the data gatherings. Interviews and surveys were conducted by telephone, online, and face-to-face.

The survey consists a randomized sample of 200 respondents of business entrepreneurs in Indonesia by which are screened that have a gross turnover below than IDR 4,8 Billion. Resulting in 125 eligible respondents. The survey is served in a close-ended question to provide a tight statistic data respond of the entrepreneurs in MSME and ultimately draw a qualitative conclusion based on the data gathered.

The source of the secondary data comes from interviews and some other sources namely:

1. Yearly report of Ministry of Finance, Directorate General Tax year 2013
2. Yearly report of Ministry of Finance, Directorate General Tax year 2018
3. Association of Indonesia Tax Consultants (IKPI), Tuesday, 24th September 2019
4. CNN Indonesia *Government Cut MSME's Taxes*. Published at 8th of March 2018
5. Manuscript of President Joko Widodo speech in the House of Representatives session Year 2018.
6. PASFM Jakarta Business Radio show at Hotel Ibis Harmoni, 27 June 2018. Interview of Yon Aarsal of Compliance Expert in Ministry of Finance.
7. Detik Finance interview at 18 June 2019 by Hendra Kusuma. Interview of M. Ikhsan Ingratubun, The chairperson of MSME Association (Akumindo).

The question asked in the close-ended survey and being use as one of the primary data are:

1. Do you own a business with a yearly turnover below than IDR 4,8 Billion? (Screening Question) (Y/N)
2. What is your business industry?
(Retail / E-commerce, Food and Beverages, Printing, IT Hardware / Software, Other Option)
3. On your Yearly Tax Return (SPT) at the year of < 2018. Which of these government policies did you use?
(Government Regulation Number 46, Norms Calculation, have not founded the company)
4. On your Yearly Tax Return (SPT) at the year of > 2018. Which of these government policies did you use?
(Government Regulation Number 23, Norms Calculation)
5. Which of these policies for MSME that you prefer?
(Government Regulation Number 46 (Final 1%, do not have a duration, being manage by the government regulation), Government Regulation Number 23 (Final 0,5%, have a duration: 3 years for Limited Liability Company, 4 Years for Partnerships and CV, 7 Years for Individual Person), Norms Calculation (Non final, tax deductible and following the progressive tax from 5% to 30%).
6. Have your business get audited by the Tax Office?
(Y/N)
7. Do you feel inclined to pay more taxes or using the norms calculation provided your business will not get audit by the government? (Y/N)

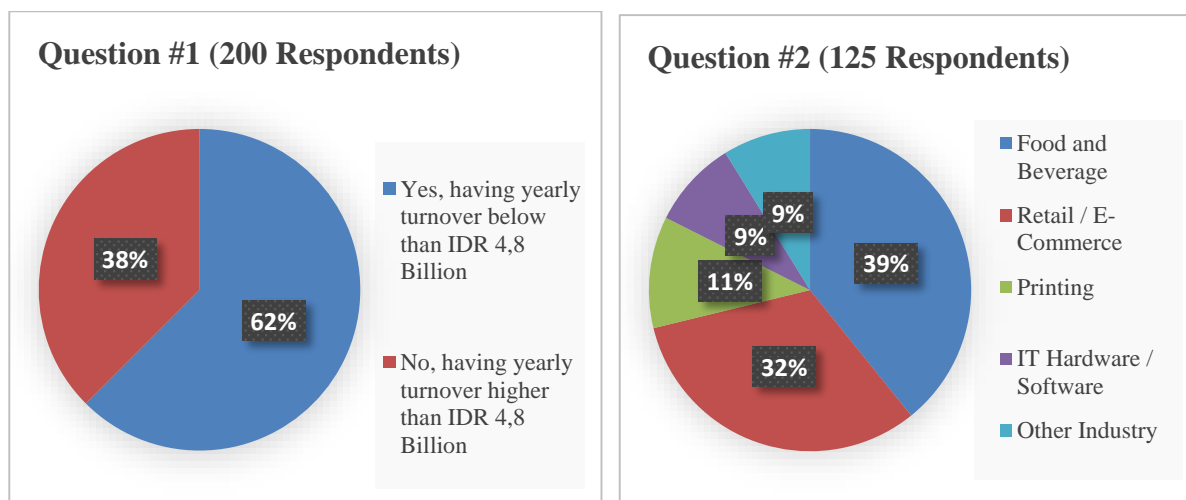
3.4 The Informant

The informant consisted of three Government Officials, two government registered tax consultants, four taxpayers, and an independent contractor to conduct the survey.

The State officials who are the source of data as mentioned are: two tax auditors functional and one tax official in collection. The ten taxpayers consisted of three shareholders from the Food and Beverage industry and one owner of an IT Hardware company, which are all subjected as an MSME with a gross turnover of IDR 4,8 Billion a year.

The independent contractor as mentioned is PT. Gongsin Internasional Transindo (LLC), a reputable online surveyor based in Indonesia. The sampling is conducted by taking in to account a randomized 200 MSME business owner in the contractor's database and then filtering the survey respondent that met criteria of having yearly gross turnover below than IDR 4,8 Million. The sample frame gives, for each individual their Database ID, Unique Generated ID, Device that they are using when willing out the survey question, gender, age, Current Location, Education background, Profession (all Entrepreneurs), Other related corporate work if there is, Religion, Monthly Spending, and the respondent's Socio Economic Status. The Survey is conducted simultaneously on 23rd March 2020.

The eligible survey respondent consists of 125 out of 200 respondents with various industry but mainly dominated in Food and Beverage Business that has a yearly turnover below IDR 4,8 Billion.



3.5 Method of Analysis

The exploration of the view in PP 23 and PP 46 is analysed with Miles and Huberman (1992) qualitative analysis technique. The technique includes the components of data collections, data reduction, data presentation, and conclusion. The result is presented and arranged in a narrative form, then the researcher taking the data gathered into account to conclude.

4. RESULT AND DISCUSSION

4.1 The purpose and concept of tax simplification in regards to the enactment of Government Regulation Number 23 Year 2018

The simplification of the taxation system is a means to tackle corruption through the empowerment in a more accessible tax system for taxpayers (Bird & Zolt, 2008). There is an understanding, according to Awasthi & Bayraktar (2015), that a more complex taxation system, the more significant opportunity for corruption. By having a simplified tax declaration, it encourages the taxpayer to be more compliant and thus ultimately reducing the administrative constraints, corruption, and weak institutions that previously impose a substantial cost on business (World Bank Group, 2009).

The findings are consistent with the purpose, as stated in the speech at the Indonesia House of Representatives (MPR) session on 16 August 2018 by President Joko Widodo.

“To achieve prosperity, we want to prosper together, prosper together. For this reason, the Government does not only pay attention to large-scale businesses but also focuses on MSMEs and the bottom 40 percent of the population.”

“To target the bottom 40 percent of the population, the Government is implementing an Agrarian Reform and Social Forestry program, and increasing access to capital for ultra-micro businesses, micro-businesses, and small businesses. To encourage the development of MSME businesses, the Government reduced the final tax rates of MSMEs to 0.5 percent as well as sharpening KUR, which could be enjoyed by 12.3 million MSMEs.”

The purpose of tax simplification on the case of Government Regulation number 23 is to substantiate the development of MSME that plays a vital role in the development of the country's economy. Moreover, as stated by an interview of one of the tax functional in Jakarta on 26th March 2020:

"Government regulation number 23 is a means to intensifies the small businesses to, in-hope become a medium-size business and then finally become a large size business to play a much bigger role in the development of Indonesia's economy."

While another tax functional in Jakarta stated another purpose of Government regulation number 23:

"Government Regulation number 23 is not only to justifies and intensifies the current and future MSME business in Indonesia.

However, instead, it is also a wakeup call for the relevant businesses to organize proper bookkeeping not just for the country, but also for their own."

The implementation of government regulation number 23 Year 2018 to replace the government regulation number 46 Year 2013 is only to reduce the tax rate for MSME. Nevertheless, to serve as a driving force to increase MSME's development in the economic status of the country and their internal accounting system.

4.2 Tax compliances dan fairness Micro-Small-Medium Enterprise

The other goal of Government Regulation number 23 Year 2018 is to increase the compliance rate of the MSME taxpayers. The goal stated by the expert compliance staff from the Ministry of Finance, Yon Arsal.

"We allow MSMEs to contribute to the country, knowledge about the benefits to the community of tax benefits. The government hopes that with this taxpayer facility, more and more people will be aware of this taxpayer,"

The view is aligned with the General Explanation Point I of the Government Regulation Number 23:

"By observing the results of the evaluation of the implementation of Government Regulation No. 46 of 2013, to provide convenience and simplicity to taxpayers in carrying out their tax obligations, on income from businesses that are received or obtained by taxpayers who have a certain gross circulation are subject to final income tax for a certain period of time."

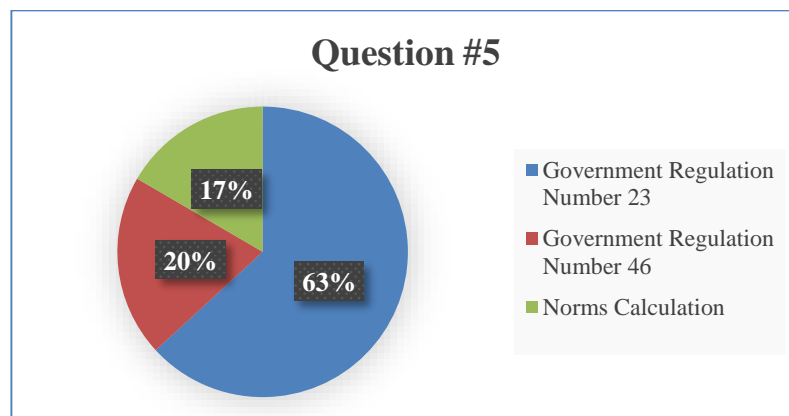
According to OECD (2012), the challenge to increase the government revenue on tax is not merely raising the tax rate. It is a combination of tax distribution basis, and accounting multiple different tax instruments that strike an intelligent design, balance to both the tax subject and to the government.

From that point of view, it can be concluded that the tax rate is not the only factor in taxpayer compliance. However, then, a concluded research paper by Wulandari & Budiaji (2018) and Azmi & Perumal (2008) shows a significant relationship between the fairness in the taxation system and rate of taxpayer compliance in the MSME.

Here is what M. Ikhsan Ingratubun, the chairperson of MSME Association (Akumindo) have to say in his interview at the Merdeka Palace complex after discussing the MSME regulation with President Jokowi:

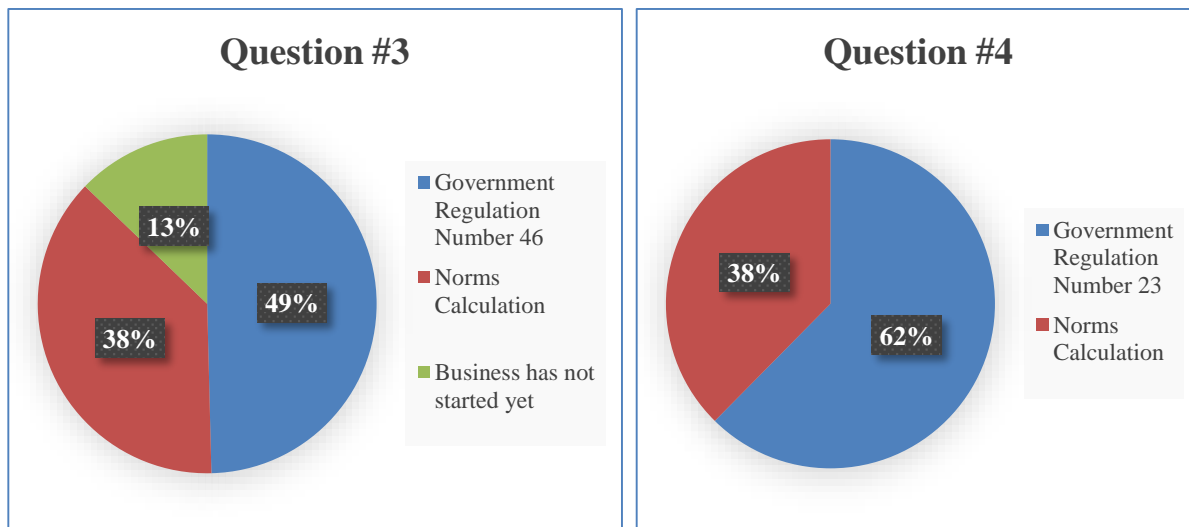
"We propose one of the taxes, a tax that has been reduced by 1% to 0.5%, but in terms of turnover, it is still too heavy for us. So, we ask the same as China, which in 2020 is a micro and small business, it wants 0%,"

A similar result is shown by the researcher's survey of 125 respondents of Indonesia MSME Owners. Having almost 63% of the respondent still prefers the Government Regulation Number 23 with its tax rate of 0,5% compared with Government Regulation Number 46 1,0% tax rate even though the limited duration.



It is also essential to note that the 47 out of 125 respondent that choose to prefer with Norms Calculation is the same person that has previously use Norms Calculation before. No other respondent that has previously used the facility of Government

Regulation Number 23 and Number 46 is using or shifting to Norms Calculation that generally has a higher tax rate than both Government Regulation as concluded in Purwaningsih (2014) research paper.



4.3 Loopholes in the tax simplification of Micro-Small Medium Enterprise

As elaborated in the previous chapter, one of the purposes of government regulation number 23 and number 46 is to increase tax compliance and participation among MSME.

The primary purpose stated may not be achieved as the eligible taxpayer may separate their legal entity into multiple, thus ultimately lowering their yearly turnover in order to get to use the government regulation number 23 or 46.

In the paper 'Tax Avoidance: The good, the bad, the future' by Raiborn, Massoud, & Payne (2015), stated very well that the appearance of a loophole in the tax regulation and law does not mean and indicate people should abuse it. While it may be legal, it is very unethical, and even with legitimizing does not make the act more moral (Raiborn & Payne, 1990).

According to Aguiar and Lopez (2007) on their simplification of taxation system, there should be divided in two school of thoughts. The first is by simplify the technical computation of taxable income in the fiscal correction. Separate the income and expense in accordance with the income tax law. And the second is by taxing a presumptive income from the gross income without considering the direct operational expense.

Here is what one of the tax functional says about their experience for handling taxpayer that use Government Regulation Number 23 Year 2018:

"The government regulation number 23 Year 2018 for MSME in terms of compliance. Has become the sheer mode for them to get lower tax calculations. The government regulation is supposed to be used for the real eligible taxpayer in the MSME industry that has not yet the capability to do the full bookkeeping. Now everyone is trying to abuse the regulation by separating the legal entity into multiple small legal entities to gain the benefits."

"Therefore, I always appreciate the taxpayers, which are very simple, which has done bookkeeping for its operations."

There is a potential misuse of practice for Government Regulation number 23 and number 46 that is very generally known by both taxpayer and the government official. Unethical practice, even though legal, can be a subjective factor to encourage tax auditors to do a tax audit onto that taxpayer.

Looking at the statement and relate it back to the tax simplification, meaning one can say there is no perfect regulation that can truly benefit the targeted taxpayer that have no potential abuse of the regulation. However, this does not mean government will stood back doing nothing.

The tax auditor conduct of audit on taxpayer that is regulated on Income Tax Law number 6 Year 1983 is clearly stated there is a need of "competent evidence" in doing an objective and professional standard of tax audits and to challenge the compliance of taxpayer. But on the other hand, the Circular Letter of DGT number SE-15/PJ/2018 about Audit Policy allows tax auditor to have their subjective perspective to conduct the tax audit on the taxpayer that they deemed needed to conduct.

The finding may suggest that somehow tax simplification have a relation on the rate of tax audit conduct on the benefitted taxpayer. The grey area discussion of tax loopholes is making both the taxpayer and the tax functional auditor a set back on their ethical practice.

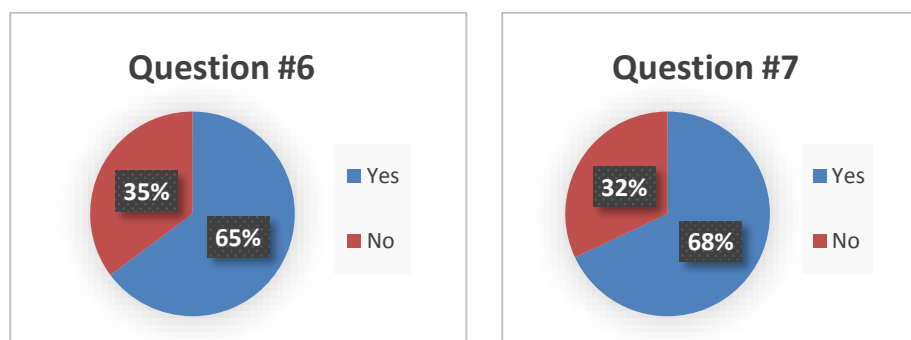
4.4 Tax audits on Micro-Small Medium Enterprise

The policy for tax audit in Indonesia is updated by almost every year at least once since 2013, with the latest tax policy came from the Government Circular Letter number 15 Year 2018.

From the previous sub-chapter can be concluded that the abuse of unethical tax avoidance, even though legal, can encourage the potential of a tax audit by functionals.

A literature review by Inasius (2018) shows that the previous study of the rate of tax audit concerning tax compliance remains ambiguous and inconsistent. The literature review considers the study findings from Jackson and Jaouen (1989), Wickerson (1994), Shanmugam (2003), Dubin (2004), Riahi-Belkaoui (2004), Andreoni et al. (1998), and Eisenhauer (2008) about how the number of tax audits affects positively in the compliance of taxpayer is contradicting with the study findings from Slemrod et al. (2001), Braithwaite (2009), and Inasius (2015).

The result of researcher survey (Question #7) of the eligible 125 out of 200 respondents indicates that 68 percent of MSME taxpayer (85 respondents) is more than willing to have an increase of income tax rate rather than being audited by the government. Another interesting fact from the result, it turns the 81 out of 85 respondents that answered willingly to pay a higher tax rate rather than get audited are all the taxpayer that has been audited by the tax functional before (Question #6).



5. CONCLUSION

The results of the exploration of informants' views on Government Regulation Number 23, Government Regulation Number 46, and Norms Calculation, have all collected through primary and secondary data, have yielded several findings. First, the enactment of government regulation is aimed to increase the simplicity for MSME businesses in paying their income tax. Second, with the information, there are possibilities ineligible taxpayers taking advantage of the government regulation by splitting their legal entity and yearly turnover. The indicator of tax compliance among MSME is questionable. Third, the reduction of MSME's final tax rate to 0,5% may not be enough, but still, the tax structures clarity and flexibility are more critical for MSME rather than the tax rate. Fourth, ultimately almost all the MSME still alert and adverse of the government presence in the tax audit and are willing to pay more taxes to the government in exchange for a lower rate of tax audit treatment to them.

6. SUGGESTION FOR FUTURE RESEARCH

Qualitative research

Quantitative research on the relation between the rate of tax audit before and after the new tax simplification is effective.

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Wiwiek Mardawiyah Daryanto
Sekolah Tinggi Manajemen IPMI
Email: wiwiek.daryanto@ipmi.ac.id

Christian Surjadi
Sekolah Bisnis dan Manajemen, Institut Teknologi Bandung
Email: christ.sjd@gmail.com