

CONTEXTUALIZING INDIVIDUAL TAXPAYERS' READINESS TO MOVE ON (FROM USING PRESUMPTIVE TAX FACILITY)

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Abstract— The tax mechanism known as turnover-based presumptive tax is provided to taxpayers operating within the micro, small, and medium sectors. Presumptive tax, in principle, is exclusively imposed for a specific duration. Individual taxpayers will transition back to the conventional taxation method in 2025. This study aims to explore the factors that influence the willingness of individual taxpayers to transition from utilizing the presumptive tax facility to adopting the conventional taxation scheme. The present study used a qualitative methodology, explicitly employing a case study framework within the context of South Tangerang. We collected primary data through interviews and obtained secondary data from literature documentation. We analyzed the gathered data using thematic and triangulation analysis methods. This research found six factors that influence the willingness of individual taxpayers to adopt changes in the taxation system. This paper makes a valuable contribution to the government by offering an overview of the critical factors that require attention to enhance individual taxpayers' readiness for the shift in their taxation mechanism.

Keywords: Determinant; MSME; Presumptive; Readiness; Tax

1. INTRODUCTION

1.1 Research Background

Based on the Annual Report of the Directorate General of Taxes (DGT) for 2021, there is a consistent annual growth in the number of registered individual taxpayers (WPOP), as depicted in Figure 1. As of the conclusion of 2021, the total number of WPOP in Indonesia stands at 61,536,414, representing approximately 92.74% of the registered taxpayers in the country. Of the figures mentioned, 17,350,334 individuals listed as WPOP must report annual income tax reports (SPT). Furthermore, 86.2% of these individuals duly comply with the submission of the SPT. Nevertheless, upon categorization, compliance with non-employee WPOP reporting is still relatively low, at 45.53%. Of 4,070,690 non-employee WPOPs obligated to submit their SPTs, 1,853,472 individuals represent this figure. A portion of the non-employee WPOP are individuals who contribute to the tax system and generate money

through businesses with an annual gross turnover of less than 4.8 billion rupiah, commonly known as WPOP in the micro, small, and medium enterprises (MSME) sectors. MSME taxpayers play a pivotal role in the contemporary Indonesian economy, serving as its primary catalyst for growth and development. The statistics disclosed in a news release issued by the Coordinating Ministry for the Economy of the Republic of Indonesia on October 1, 2022, substantiate the assertion. The data indicated that the MSME sector has contributed 60.5% to the gross domestic product (GDP) and has absorbed 96.9% of the national workforce.

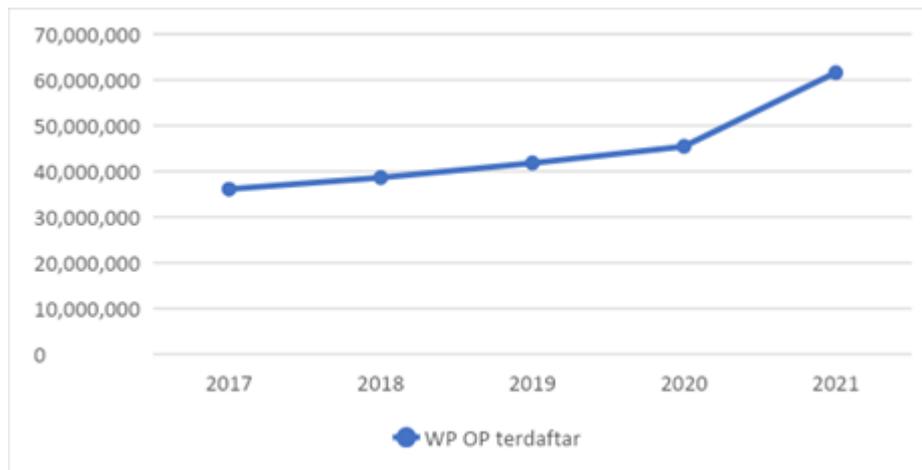


Figure 1. The Growth of WP OP in 2017-2021

Source: Annual Report of Directorate General of Taxes on Indonesia for the year 2021 (2022)

The government provides preferential taxation treatment to the MSME sector, allowing it to benefit from a reduced final income tax rate of 0.5%. The regulations about the special treatment are stipulated in Government Regulation Number 55 of 2022 (PP 55/2022) on the modification of rules in the income tax domain, which supersedes the preceding code, Government Regulation Number 23 of 2018 (PP 23/2018) on income tax levied on earnings derived from commercial activities by taxpayers with a specific gross revenue. Tax policies aimed at providing convenience and fairness to taxpayers in the MSME sector are implemented via government regulation (PP 55/2022), providing legal certainty and streamlining tax administration for the industry. The streamlined tax administration, the presumptive tax facility, is a more straightforward form of taxation designed to address tax avoidance and broaden the tax income generated by the hard-to-tax (HTT) sector, specifically the MSME sector. This notion is substantiated by the findings of Newman et al. (2018), who demonstrated that implementing the presumptive tax on the MSME sector in Zimbabwe resulted in a notable increase in government revenues from 2009 to 2014. Furthermore, Newman et al. (2018) elucidated that implementing presumptive tax can enhance taxpayer compliance within a particular sector.

Furthermore, the presumptive tax facility is a mechanism for incorporating MSMEs into the tax administration system (Mas-Montserrat et al., 2023). In the present scenario, taxpayers classified as MSMEs are allocated a specific duration within which they may avail themselves of tax benefits (Ahmad & Stern, 1989). Understanding tax duties among MSME taxpayers will improve as the designated period elapses. Subsequently, the presumptive tax facility will be substituted with a standard tax method. Many taxpayers must know the temporal constraints associated with the hypothetical tax mechanism, specifically concerning applying final income tax at 0.5% of total revenue. Taxpayers who have utilized the provision as mentioned earlier

after the implementation of government regulation (PP 55/2022) are required to transition to the standard income tax rate system outlined in Article 17 of the Income Tax Law Number 7 Year 1983, as amended for the last time by Tax Harmonized Law Number 7 Year 2021 (UU PPh), commencing in the year 2025.

The transition of income tax calculation for the MSME sector to the standard income tax rate implementation signifies that taxpayers must meticulously document all their financial transactions unless they opt for an alternative tax facility using the net income calculation norm (NPPN) mechanism upon notification submission. To this far, individuals operating within the MSME sector have encountered challenges in accurately documenting their turnover and associated expenditures. Multiple studies conducted in Indonesia have examined the issue of record-keeping within the MSME sector. These studies, like Jaswadi et al. (2015), Lisjanto (2018), and Widayati et al. (2023), have consistently found that a significant number of MSMEs in Indonesia continue to face challenges in accurately documenting their financial transactions, which subsequently hinders their ability to meet their tax obligations.

Existing literature related to the tax implications of the MSME sector predominantly focuses on two key areas: taxpayer compliance as research by Inasius (2019), Musimenta et al. (2017), Pratiwi & Sinaga (2023) and tax awareness via studies by (Mukhlis et al., 2015; Newman et al., 2018; Twum et al., 2020). Several studies on taxpayer compliance in Indonesia identify factors influencing taxpayers, such as the research conducted by Melando Waluyo (2013). It was found that factors such as tax service and knowledge of tax significantly affect individual taxpayer compliance, and awareness of individual taxpayers significantly affects individual taxpayer compliance.

The authors identified a scarcity of studies examining the readiness of taxpayers in the MSME sector who had previously utilized the presumptive tax mechanism to transition to a standard taxation approach as stipulated in Article 17 concerning Income Tax. In their study, Sari et al. (2022) conducted an empirical examination to assess the readiness of taxpayers operating in the MSME sector, especially those involved in limited partnerships, within the region of East Java. Nonetheless, with the commencement of 2025, it is evident that taxpayers working within the MSME sector will have challenges in effectively utilizing the standard income tax mechanism. To resolve this issue, ascertaining the determinants that impact the willingness of taxpayers within the MSME sector to adopt the standard income tax mechanism is imperative. This need is particularly relevant for individual taxpayers engaged in business activities within the MSME sector. Aligning with the practical market, this study aims to identify critical elements influencing the readiness of MSME taxpayers in South Tangerang City to switch from the presumptive tax system to the standard income tax mechanism.

In this study, the researchers conducted an exploratory investigation by engaging in in-depth interviews with multiple individual taxpayers operating within the MSME sector in the South Tangerang area. Additionally, representatives from the Pondok Aren Tax Office were questioned to gather insights from diverse perspectives on taxation in the MSME sector. Representatives from the tax office in South Tangerang were chosen as subjects for in-depth interviews because they are at the forefront, dealing directly with MSME taxpayers. The research focus was directed towards South Tangerang City due to several reasons. First, the number of MSMEs in South Tangerang consistently demonstrates an annual positive growth trajectory. Second, this trend is further reinforced by the city's strategic location as a buffer zone for the Indonesian capital, which fosters a favorable business environment. Third, the growth of MSMEs is confirmed by establishing diverse MSME communities within the region (Eliyani et al., 2021).

The main reason behind the author's exploration of this topic is that the government needs strategies and preparations to facilitate the transition of the tax system for individual MSMEs. Therefore, in this research, the author plans to explore what determinant factors influence taxpayers' readiness to switch to the regular tax system from the presumptive/simplified tax regime. By identifying the determinant factors that affect taxpayers' willingness to change to the traditional tax system, the government can prepare more effective strategies to encourage taxpayer readiness to migrate to the traditional tax system. Furthermore, limited literature discusses taxpayer readiness to transition from a presumptive/simplified tax regime to a regular tax system. The most important novelty of this research is to discover and explain the determinant elements under investigation.

This study is expected to provide benefits for various parties. The results of this research can complement the literature related to applying presumptive tax in Indonesia. In addition, this study is expected to furnish valuable insights for DGT in formulating public relations and oversight strategies targeting individual taxpayers within the MSME sector before they transition to the regular tax framework in 2025. Taxpayers are also expected to be able to prepare themselves, especially regarding determinant factors revealed in this research, to support their success in implementing the standard tax framework later.

1.2 Literature Review

1.2.1 Attribution Theory

Snead et al. (2015) define attribution as a conclusion about the causality of a particular event or outcome. A standard dimension in attributing effects involving success or failure is the locus of control, the extent to which a cause is perceived to be related to internal factors within the individual or external environmental factors. Attribution theory in studies using a variety of study designs, research contexts, and focus topics yields insights that enhance our understanding of how attribution processes predict and explain individual emotions and behavior. Heider (Harvey et al., 2014) explains that people have an innate interest in understanding the causes of success and failure. According to Heider, causal explanations enable individuals to understand their world and control their environment. Attribution theory has its roots in the concept of "naive psychology" developed by Heider, whose goal is to understand how ordinary people determine the causes of certain events (Schmitt, 2015).

1.2.2 Presumptive Tax

According to Bird in Newman et al. (2018), presumptive tax arises when the self-assessment system is unreliable. When the self-assessment system opens up gaps for tax avoidance and reduces the tax basis, presumptive tax comes to overcome both problems. Bird and Wallace in Newman et al. (2018) stated that the main aim of implementing presumptive tax is to include the informal or hard-to-tax (HTT) sector into the regular tax system through a simplified tax administration process. The implementation of presumptive tax and its influence on MSME behavior is discussed in Haji (2017). Research examining the hypothetical tax system in Tanzania found that the development of the theoretical tax system significantly contributed to tax revenue and changes in the behavior of MSMEs. However, it still had to be supported by government reform, monitoring, evaluation, and tax audits. However, there are still many MSMEs that were not captured in the tax system, which still shows the need for more effective tax reform for MSMEs through rationalizing the tax regime, controlling factors that influence MSME behavior, improving education and services to trigger voluntary compliance, and increasing operational efficiency. Haji (2017) revealed that the advantages of turnover-based presumptive tax include making it easier to design taxes and minimizing the risk of

disputes over tax rates. Meanwhile, the drawback is that the system makes the tax burden unfair to MSME taxpayers; those with large turnovers are charged lower taxes, and those with small turnovers are charged higher taxes. Other disadvantages of this tax system for MSMEs are inefficient administration costs and law enforcement.

Research related to presumptive tax for MSMEs in Indonesia has also been outlined in (Aditya, 2020). This research found that the hypothetical tax system outlined in Government Regulation Number 46 of 2013 concerning Income Tax on Income from Businesses Received or Obtained by Taxpayers Who Have a Certain Gross Turnover PP (46/2013) has been able to encourage voluntary compliance with MSME taxpayers, as evidenced by the increase in registered MSME taxpayers, and the increase in national tax revenues. Simplification of tariffs for MSMEs has also reduced compliance costs. However, implementing the MSME tax rate still raises several problems in terms of ambiguity in the definition of MSMEs and the lack of knowledge of MSMEs regarding the tax system. It is also suspected that the massive use of this tax rate is a form of tax avoidance by businesses whose turnover exceeds the MSME turnover limit.

1.2.3 Earlier Study

Research conducted by Sari et al. (2022) found that factors such as tax socialization received by taxpayers, taxpayers' knowledge of tax provisions, and taxpayers' understanding of tax sanctions have a positive impact on taxpayers' readiness to fulfill tax obligations after the end of the government regulation (PP 23/2018) implementation. The research object of this research is MSME taxpayers in East Java who calculate their income tax using a mechanism stated in PP 23/2018. Researchers distributed questionnaires in a Google form and used quantitative methods with multiple regression analysis. Meanwhile, previous research that, according to the author, is quite relevant to answer their research questions is research that discusses the factors that influence the readiness of MSMEs to implement the Financial Accounting Standard for MSMEs (SAK EMKM) published by the Institute of Indonesia Chartered Accountants (IAI). The author considers this topic relevant because in calculating taxes using Article 17 concerning Income Tax rates, taxable income, which is the basis for calculating tax, comes from the income statement and statement of financial position. Therefore, MSMEs need to be able to apply applicable accounting standards to support their readiness to implement Article 17 concerning the income tax scheme. Previous research found that MSMEs' awareness of the importance of financial reports, socialization, training, and assistance to MSMEs regarding the application of accounting standards for MSMEs, the existence of dedicated employees responsible for financial statements, and MSMEs' knowledge of SAK EMKM influence the readiness of MSMEs in implementing SAK EMKM (Luchindawati et al., 2021; Sholikin & Setiawan, 2018).

2. RESEARCH METHODOLOGY

2.1 Research Object

This research aims to identify and explain what factors influence the readiness of MSME individual taxpayers in transitioning from using final income tax rates to using Article 17 concerning Income Tax rates. The scope of MSME individual taxpayers in this research is MSME individual taxpayers in South Tangerang City. South Tangerang City was chosen as the focus area of research because this city has a positive trend in the number of MSMEs, characterized by the emergence of various MSME communities (Eliyani et al., 2021).

2.2 Research Method

This research uses an interpretive paradigm with a qualitative research method and a case study strategy. Sugiyono (2013) explains that qualitative research methods are based on post-positivism philosophy, usually referred to as an interpretive and constructivist paradigm where social reality is seen as something holistic, complex, and full of meaning so that it does not emphasize generalizations. Meanwhile, according to Sekaran Bougie (2016), a case study is a research strategy that collects information about particular objects, events, or activities. This strategy aims to get a clear picture of a problem. Yin in Sekaran & Bougie (2016) state that this research strategy is carried out by empirically investigating a phenomenon in real life through various data collection methods.

2.3 Research Data Collection Techniques

Understanding the determinants of MSME individual taxpayers' readiness was obtained using triangulation data collection techniques. Sugiyono (2013) explained that triangulation is a technique that combines various data collection techniques (technical triangulation) and data sources (source triangulation). This research combines data sourced from MSME individual taxpayers and the Pondok Aren Tax Office as primary data sources and data sourced from literature as secondary data sources.

Data collection begins by reading and understanding information from previous studies on similar subjects. This literature review was conducted as a preliminary study to map the determinants of taxpayers' readiness in transitioning to general taxation mechanisms. This review was done by surveying the readiness of MSME taxpayers in East Java to implement general taxation mechanism (Sari et al., 2022)

Next, data was collected by interviewing several sources from the MSME individual taxpayers' and the tax authorities' sides. The MSME individual taxpayers used as research subjects were several MSME individual taxpayers in South Tangerang. From the perspective of the tax authorities who directly interact with taxpayers, this research uses the Pondok Aren Tax Office as the research data source. Posted on its social media, Pondok Aren Tax Office is an MSME partner assisting MSMEs. This shows that the Pondok Aren Tax Office is quite representative in understanding the implementation of the tax obligations of MSME taxpayers in South Tangerang.

The author conducted interviews with 4 (four) sources consisting of 2 (two) MSME individual taxpayers, AJ and WD, and 2 (two) employees of Pondok Aren Tax Office MR and MK. AJ and WD are MSME individual taxpayers who own businesses in the culinary sector with a one-year turnover of less than IDR 500 million. Meanwhile, MR has served as an account representative (AR) since 2018, and MK has been a tax instructor since 2021 at Pondok Aren Tax Office. There are 4 (four) main interview topics that serve as interview references, knowledge, and understanding of MSME individual taxpayers regarding tax provisions (Topic 1), recording and bookkeeping of MSME individual taxpayers (Topic 2), socialization and education for MSME individual taxpayers (Topic 3), as well as supervisory and tax sanctions on MSME individual taxpayers (Topic 4). The following is a table detailing the sources and the topics proposed in the interview.

Table 1. Interview Details

Interviewee	Occupation	Topic 1	Topic 2	Topic 3	Topic 4
AJ	MSME owner	√	√	√	√
WD	MSME owner	√	√	√	√
MR	AR	√	√	√	√
MK	Tax Instructor	√	√	√	-

Source: Research Data (2023)

2.6 Research Data Analysis

Based on interview data obtained in the field, the author compiled interview transcripts using the NVivo application for further processing. The author conducted thematic analysis by coding for essential and relevant information and categorizing the codes with charts in the NVivo application. Next, the author analyzes each code and the relationships between codes and describes the results of the analysis in narrative form. The author then links the findings from the interview data with the results of previous research to obtain research conclusions. The following is the overall flow of data analysis carried out by the author.

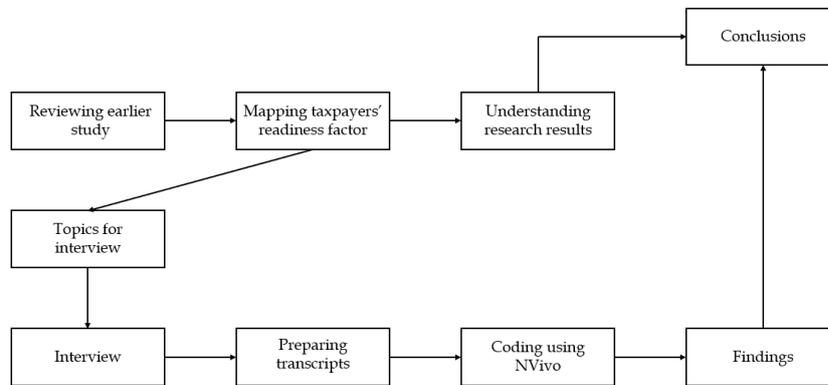


Figure 2. Flow of Research Data Analysis

Source: Research Data (2023)

3. RESULT AND DISCUSSION

In their study, Sari et al. (2022) discovered that various factors, including the extent of tax socialization received by taxpayers, taxpayers' familiarity with tax regulations, and taxpayers' comprehension of tax penalties, positively influence their preparedness to fulfill their responsibilities beyond the expiration of the PP 23/2018 usage period. Furthermore, the process of recording and bookkeeping is seen as a crucial determinant in assessing the preparedness of taxpayers. When the PPh (Income Tax) calculation is based on a mechanism, taxpayers must prepare a profit and loss report. This report serves as the foundation for determining the appropriate tax liability. Alternatively, if taxpayers use the net taxation calculation norms (NPPN), they must consistently record monthly gross turnover. This study examines various factors that serve as the foundation for developing critical themes explored in the interview regarding the knowledge and comprehension of taxation regulations, recording and bookkeeping practices, socialization and education initiatives targeting MSME taxpayers and the oversight and implementation of tax penalties for individual MSME taxpayers.

Based on the author's coding results, it can be inferred that six primary categories elucidate the preparedness of individual MSME taxpayers to transition to Article 17 concerning the Income Tax method. The researchers identified novel variables that supplemented prior

scholarly inquiries in the present investigation. The primary classifications encompass the following: taxpayers at the individual level, micro, small, and medium-sized enterprises (MSMEs), their comprehension and awareness of taxation regulations, the process of recording and bookkeeping, oversight and penalties for taxpayers at the individual and MSME levels, adherence to the requirements set forth for taxpayers at the individual and MSME levels, internal drive of the taxpayers, and the scale of the enterprise. The interconnection between child nodes and parent nodes is elucidated in Figure 3.

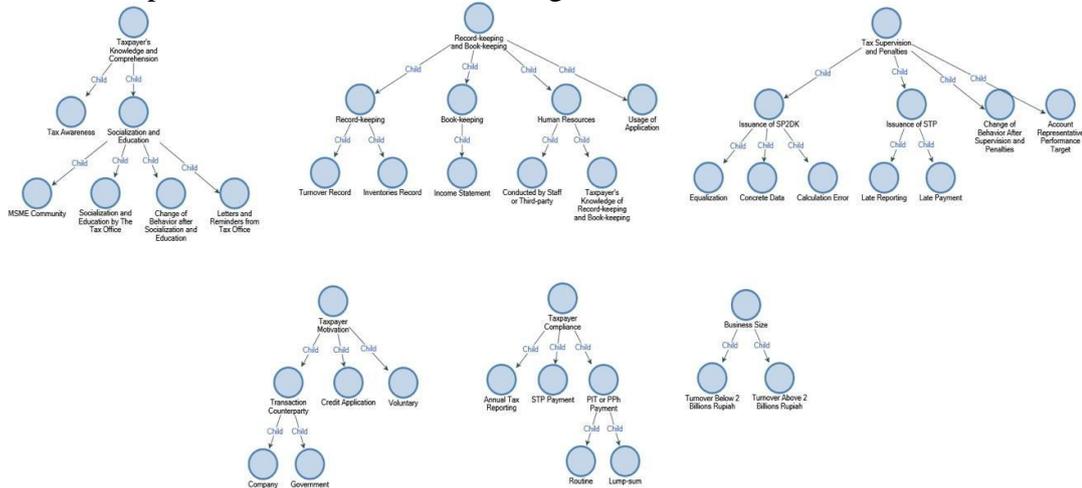


Figure 3. Relationship between Codes and Categories
 Source: Research Data (2023)

Factor 1: Individual MSME taxpayers' knowledge and comprehension of tax regulations. This study found that the awareness and understanding of individual tax conditions among MSME taxpayers influence their readiness to comply with the new tax calculation method. Furthermore, this factor is elucidated by multiple sources and its reference in prior studies. The acquisition and comprehension of this knowledge are intricately linked to the taxpaying population's awareness of the tax itself.

“Even though my business's annual revenue is not much, I have been a member of the MSME tax-awareness community (USP) since I became aware of my responsibilities. So, when I decide to obtain a Tax Identification Number (TIN), I already know what taxes are, what they are used for, and what our rights and obligations are.” (WD, 2023)

“...but why are so few people reporting their tax? "If it is under 500 million (annual turnover), you do not need to pay taxes, and you cannot feel the benefits immediately.” (AJ, 2023)

“For MSMEs, their tax awareness is usually still low.” (MR, 2023)

Although the Account Representative stated that MSME tax awareness is still low, the two taxpayers who became study sources said clearly that they knew the existence of taxes against MSMEs. Furthermore, the tax consciousness and understanding of the two taxpayers is built on the socialization and education that taxpayers have followed, both from the Tax Office and the taxpayer community (USP).

“... regarding comprehension of taxation, now there are many pieces of training related to it, so most people know about the 0.5% tariff”. (AJ, 2023)

“We are also the member of the MSME tax-awareness community (USP), a community that the tax office itself also fosters.” (WD, 2023)

"It has been conveyed, automatically when reporting annual tax (SPT) or during socialization, especially for MSME taxpayers, it must have been conveyed that the tax rate for MSME taxpayers is half a percent of their turnover, and the usage limit for individual MSME taxpayers is seven years..." (MK, 2023)

"Account Representatives do not carry out a special approach to the taxpayers. However, when we meet our respective taxpayers, we usually give them reminders and education regarding their responsibilities. Usually, the education is done during the annual tax reporting period (Annual Tax Return)..." (MR, 2023)

Taxpayers admit that the socialization and education carried out by the tax office and the community have led them to know and understand tax provisions. Education in the form of counseling to a minimum of 10 (ten) participants at one time is carried out by tax instructors. In contrast, account representatives can carry out one-on-one education while meeting their respective taxpayers, especially during the annual tax reporting (Annual Tax Return). There are three big themes in tax counseling: awareness inclusion (Theme 1), tax regulations (Theme 2), and behavior change (Theme 3). Counseling related to tax provisions is included in Theme 2 of counseling. Apart from that, the approach materials prepared by each tax office are taken from the DGT Head Office. Respective tax office instructors usually adapt the materials or prepare their counseling materials. Tax instructors can also send materials to the DGT Head Office for review. If the Head Office accepts it, these materials can be used and distributed for approach throughout Indonesia. Regarding implementation time, counseling on tax provisions is usually tightened near the annual tax reporting period from January to February. Information related to counseling by the tax office is generally shared via Whatsapp and Instagram, as well as through communities.

In addition, it is noteworthy to mention the socialization and educational initiatives implemented by the MSMEs tax-awareness community, USP (UMKM et al.), which aligns with the tax authorities' efforts. Additionally, the tax authorities have underlined the USP community's significant contribution to facilitating the expansion of MSMEs and enhancing their comprehension and awareness of MSME taxation. The USP community, founded in 2017 in South Tangerang City, has significantly transformed the tax strategy for MSMEs. The community has a significant role in shaping the strategy by replicating the tax authority, specifically the Pondok Aren Tax Office, in supporting the growth of MSMEs. This proactive measure ensures that MSMEs are well prepared for potential tax implications from their expansion. By facilitating the enhancement of the MSME's turnover value, there will be a subsequent increase in tax payments, leading to an ultimate rise in tax receipts. Assisting MSMEs was made possible by including business development resources inside the tax authorities' approval program. The collaboration between USP and the Pondok Aren Tax Office at that particular juncture emerged as a noteworthy and exemplary national achievement.

In a previous study, Sari et al. (2022) asserted that the socialization of taxation and the knowledge of MSME taxpayers influence their readiness to transition to standard taxation mechanisms; however, the awareness of MSME taxpayers does not affect their readiness. The study associates tax socialization with attribution theory, which posits that implementing tax socialization by the Directorate General of Taxes (DGT) can create a positive impression on taxpayers, encouraging them to prepare themselves to comply with tax obligations. The knowledge of MSME taxpayers also influences their readiness since a greater understanding of taxpayers enables them to adapt better and fulfill their tax obligations by existing tax regulations. Meanwhile, the study states reasons that support the absence of an influence from the awareness of MSME taxpayers, which is that taxpayers' awareness is insufficient to assist them in facing changes in tax regulations.

This study presents novel findings that establish a correlation between the knowledge and comprehension of taxpayers, tax socialization and education, and the tax awareness of MSME taxpayers, hence diverging from prior studies. The level of expertise and understanding among taxpayers is significantly shaped by socialization and tax education initiatives targeted at taxpayers, further regulated by the tax awareness of micro, small, and medium-sized enterprise (MSME) taxpayers. The link between the three factors can be described as follows when delineated.

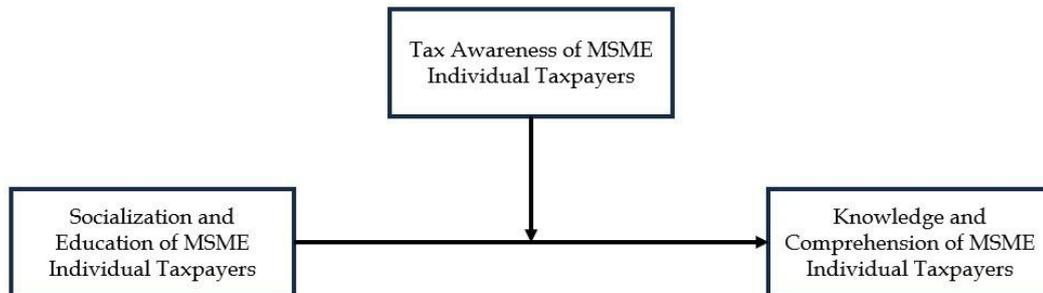


Figure 4. The Correlation Between Knowledge and Comprehension, Socialization and Education, and Tax Awareness of MSME Individual Taxpayers

Source: Research Data (2023)

The relationship is obtained from the analysis of the information provided by taxpayers and the following analysts:

"There are some criteria for taxpayers. Someone does not know (the regulation), wants to know it, and wants to implement it. There is something taxpayers do not even want to know. So it depends on the taxpayer too..."(MK, 2023)

"The truth is, whether I am ready or not, I will just follow the regulation. For me, so far, I am the one who complies with the government, not the one who likes to refuse..." (WD, 2023)

Based on the provided evidence, it is evident that the comprehension and knowledge of MSME individual taxpayers may be effectively improved through the process of socialization and education provided to taxpayers. However, in the absence of taxpayer awareness of their tax responsibilities, the comprehension and awareness of individual taxpayers in the MSMEs sector will also be impacted. Those who are ignorant will disregard the tax regulations. However, it should be noted that more than tax awareness alone is needed to lead to enhanced knowledge and understanding of taxation among taxpayers. This is because individuals may possess a certain level of awareness regarding taxes yet still need to gain the necessary comprehension and familiarity with the many taxation rules and regulations. The statement aligns with the findings of Sari et al.'s recent study (2022). Ultimately, knowledge and understanding among MSMEs individual taxpayers can be enhanced through adequate socialization and education, complemented by tax awareness. This approach aims to improve the preparedness of MSMEs as individual taxpayers in adapting to changes in taxation mechanisms.

Factor 2, recording and bookkeeping. Article 17 concerning Income Tax requires taxpayers to carry out bookkeeping, except if they use NPPN, they should at least do the recording. Therefore, recording and bookkeeping activities influence MSME individual taxpayers' ability to adjust their tax obligations.

"The recording is not routine; what matters is that the money that comes in (revenue) and the purchases are recorded" (WD, 2023)

"Only expenditure and revenue. That are the items that recorded. Even if it is just two items, it is hard to be consistent." (AJ, 2023)

"Like it or not, they (taxpayers) normally record how much inventory is in and out. So most likely, they have the inventory record." (MR, 2023)

"Taxpayers usually forget to report their annual tax and record their transactions regularly. To know the real condition, the business turnover has been over 500 million Rupiah or not, according to monthly records. Sometimes, taxpayers record their turnover only when they want to report their annual tax. It does not reflect the real conditions. That is the consequence." (MK, 2023)

"Usually, only the amount of MSME's gross turnover is required. Among the MSME individual taxpayers, one may have an advanced recording, such as an income statement or one that is more detailed than the gross turnover. However, I never found one like that." (MR, 2023)

Both interviewees, who are individual taxpayers in the MSME sector, expressed similar views regarding their practices in recording and bookkeeping. Both individuals documented their receipts and purchases but failed to provide an accurate report. Furthermore, they need help executing the record. The tax authorities also provided documentation consistent with the statements provided by the two taxpayers. According to MK, it has been observed that individual taxpayers of MSME frequently need to remember to document their gross turnover.

Consequently, taxpayers tend to estimate their gross turnover in their annual tax reports, resulting in a discrepancy between the reported figures and the actual circumstances. The issue is that when taxpayers declare their gross revenue at the end of the year, and it turns out that the total exceeds 500 million Rupiah, they risk being penalized for making late payments and late reports. Sometimes, the amount of the penalties imposed exceeds the actual tax liability owed by MSME taxpayers. Additionally, AR claimed that certain MSME individual taxpayers documented their business activities by calculating the volume of incoming and outgoing products. Furthermore, it should be noted that MR still needs to identify cases of MSME individual taxpayers performing bookkeeping activities.

"I mean, some people from my circle of friends have been reporting their annual tax using accounting and tax services. They usually use that service for their business bookkeeping and for making their annual tax report." (AJ, 2023)

"The ones with neat bookkeeping are the ones who use a third party. However, if you do it yourself, there are almost none. Even if there is, that is the simplest bookkeeping, not making an income statement report." (AJ, 2023)

"Often, when taxpayers tell stories, it is just the two of them or something (the employees). Sometimes, if they need to record their transaction, they cannot do it optimally. That is how taxpayers usually convey it." (MK, 2023)

"... because we have limited human resources and limited time, and if we have to do it, we do not think we are very familiar with the application (provided by Indonesia Central Bank), so we automatically want to look for a simpler application..." (AJ, 2023)

"... but now we use QRIS (QR code payment in Indonesia), so some transactions using a barcode with the customer are automatically immediately recorded into the account... this transaction is already online and can be monitored immediately. That is quite helpful, even though we do not know exactly what it is, but at least we know how much daily turnover is." (AJ, 2023)

"... If you download M-Pajak (an application provided by DGT), there will be that. There are items for recording turnover every period there. That is the official M-Pajak

application from DGT. There, after logging in, a menu for recording will appear. Usually, we tell the taxpayers after the tax socialization is delivered. For example, if you want to do it manually, that is okay. If you want to use an application, you can use M-Pajak..." (MK, 2023)

MSME individual taxpayers' recording and bookkeeping activities are inherently interconnected with the resources that help them. One MSME individual taxpayer disclosed that there were human resources, time, and knowledge about record-keeping constraints, rendering it challenging for taxpayers to engage in comprehensive record-keeping when done autonomously and effectively. A tax instructor similarly conveyed concerns about the insufficiency of human resources for managing the business records of MSME taxpayers. In contrast, certain MSMEs use third-party services to enhance the comprehensiveness and organization of their recording and bookkeeping processes.

Applications are another resource that can be used in addition to human resources. AJ disclosed that he has utilized multiple note-taking programs yet occasionally needs clarification regarding the operational intricacies of these applications, specifically the Si Apik and Zahir applications. Another challenge encountered is the limited accessibility of the application, which can only be accessible through a personal laptop. Additionally, if the device used by the taxpayer discovers a fault, the application becomes unusable, requiring the use of the manual approach. Currently, a payment system utilizing Quick Response Indonesia Standard (QRIS) has proven beneficial in facilitating the recording process. The QRIS payments will be automatically recorded in the account, enabling the daily visibility of sales revenues made through QRIS. In addition, the instructor also mentioned the existence of a newly developed application called M-Pajak by the DGT, which has been officially announced and promoted during tax education campaigns. The primary objective of developing this application was to facilitate the systematic documentation of taxpayers for each designated period.

The above description indicates that resources influence the recording and bookkeeping of MSME individual taxpayers. The recording and bookkeeping operations of individual MSME taxpayers impact their readiness to adapt to changes in taxation methods. The requirement for bookkeeping arises from the provisions outlined in Article 17 concerning Income Tax, wherein taxpayers are obligated to maintain proper records unless they decide to use the NPPN system, in which case recording becomes mandatory. Nevertheless, there remains a need for enhanced recording and bookkeeping practices among individual taxpayers of MSME since many entities have yet to establish consistent and regular recording and bookkeeping procedures.

Factor 3 is monitoring and providing penalties to individual taxpayers of MSME. According to the principle of self-assessment income taxation, tax authorities place trust in taxpayers to meet their tax obligations. Hence, the tax authority is responsible for monitoring taxpayers' compliance with their tax duties, ensuring the accuracy and adherence to relevant statutory provisions in reporting and depositing taxes. A diverse range of strategies are implemented at the tax office level to enhance compliance among MSME individual taxpayers. It begins with education, progressing to supervision, and culminating in law enforcement.

"... Taxpayers have differentiated again at the DGT head office, which goes into education supervision and which goes into which examination. It depends on the level of CRM. CRM for education or CRM for law enforcement." (MK, 2023)

The responsibility for supervising taxpayers' adherence to tax requirements at the tax office mainly lies with Account Representatives. Account Representatives have the authority to issue a Letter of Request for Explanation of Data and Information (SP2DK) as part of their

responsibilities. This letter formally requests taxpayers to provide further information and data related to the information and data acquired by the tax authorities. For instance, if specific empirical evidence indicates the existence of tax underpayment, such underpayment arises from equalizing income tax payments with other relevant data. It may also result from miscalculations made by taxpayers.

"The DGT head office provides "feeding data." It gave us data that we can use and put it on the priority list to become an SP2DK product...." (MR, 2023)

In addition to issuing SP2DK, Account Representatives have the authority to impose penalties through issuing a Tax Collection Letter (STP), which encompasses instances of income tax underpayments and the provision of administrative penalties. In the context of MSME individual taxpayers, similar data suitable for use as SP2DK trigger data is generally limited. Hence, the strategy commonly employed by account representatives involves the issuance of an STP. The issuance of STPs can also serve as an indicator for assessing the performance of accounting representatives. MSMEs' taxpayers are typically provided with an STP by account representatives. This penalty addresses delayed payments, late filing, or not reporting the annual tax report.

"...MSME taxpayers are less filtered on the priority list because of their tax potential. However, just because the value is less than the supervisory priority list at the SP2DK level does not mean it is impossible to issue SP2DK to MSMEs as individual taxpayers...." (MR, 2023)

"Yes, he will be subject to the consequences of reporting late or paying late. For example, he only pays 50 thousand rupiah every month. Because you paid at the end, you will be subject to a penalty of 100 thousand Rupiah because of the late payment. The amount of the penalties is greater than the taxes he paid." (MK, 2023)

Following the enactment of penalties, there is generally a change in taxpayers' behavior regarding fulfilling their tax obligations. Research by Apriliyani (2022) and Iriyanto & Rohman (2022) also suggests that imposing penalties will positively impact taxpayer compliance. Sari et al. (2022) stated in their research that understanding MSME individual taxpayers Commanditaire Vennootschap (CV) regarding tax penalties positively impacts taxpayers' readiness to fulfill tax obligations after the end of the period for using PP 23/2018. However, what is unique is that, with these administrative penalties, not all taxpayers' behavior has changed. Generally, STPs issued for late tax payments are due to payments being made all at once, usually before the annual tax reporting period. Taxpayers should deposit regular payments every month by the 15th of the month. Based on information from sources, some taxpayers still need to arrive on time to make payments, even though an STP has been issued for the late payment.

"After being given STP, some taxpayers' behavior changes and some do not. Because of what? Yes, that is it because there are still people who pay it every year in their annual tax report...." (MR, 2023)

"It is just that there are consequences; sometimes, we also explain the consequences of your annual tax reporting period. For example, if you pay late, you will be given penalties. They are just not afraid..." (MR, 2023)

Factor 4, MSME individual taxpayers compliance. MSME individual taxpayers who are compliant in carrying out their tax obligations are the desired output of the tax authority. In the analysis carried out by Sari et al. (2022), taxpayer compliance is a mediating variable between

socialization and penalties with taxpayers' readiness to switch to Article 17 concerning the Income tax mechanism, as explained in Figure 5.

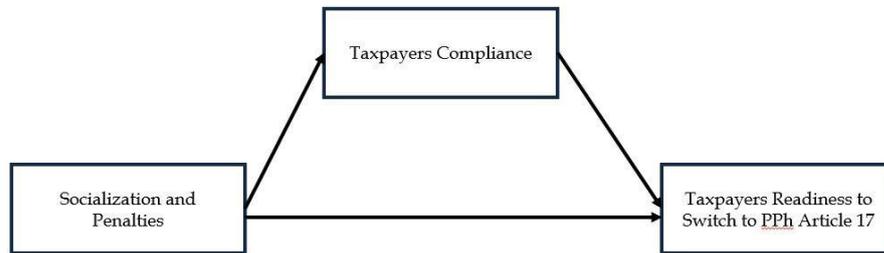


Figure 5. Taxpayer compliance as a Mediating Variable between the Relationship between Socialization and Penalties Factor and Taxpayer Readiness Factor

Source: Processed from Sari et al. (2022)

Their promptness commonly gauges the assessment of MSME individual taxpayers' adherence to their tax responsibilities in fulfilling income tax payments and submitting annual tax reports. In addition, STP payments for administrative penalties serve as a measure of MSME individual taxpayer compliance. According to the findings from interviews, it is observed that MSME individual taxpayers frequently settle their tax payments lump-sum, wherein they simultaneously make payments for many tax periods.

"We report the annual tax report once a year, and at that time everything is paid..." (MR, 2023)

"In the past, before there was a 500 million Rupiah limit (the exemption on paying MSME income tax), the taxpayers often forgot to make the payment every month... Finally, it will be paid later when they want to report it...." (MK, 2023)

This research has established a correlation between taxpayers' compliance and several aspects, including socialization, education, supervision, and penalties. According to the data in Figure 4, socialization and education impact taxpayers' knowledge and comprehension of tax provisions. By enhancing knowledge and understanding, individuals are more likely to show changes in their behavior, ultimately leading to a higher level of compliance among taxpayers. Improving taxpayers' compliance is expected to positively impact the readiness of MSMEs and individual taxpayers to transition to Article 17 concerning the Income tax mechanism. In addition to this, the function of monitoring and imposing fines also exerts an impact on fostering behavioral changes within MSME individual taxpayers. According to attribution theory, outside events can affect a person's behavior. One approach to modifying the behavior of taxpayers is through the implementation of monitoring mechanisms and the imposition of punishments. These measures have a deterrent effect and raise the level of caution taxpayers exhibit. Therefore, enhancing the compliance of individual MSME taxpayers can contribute to their greater readiness to transition to Article 17 concerning the income tax process. The interrelationship among these variables is elucidated in Figure 6.

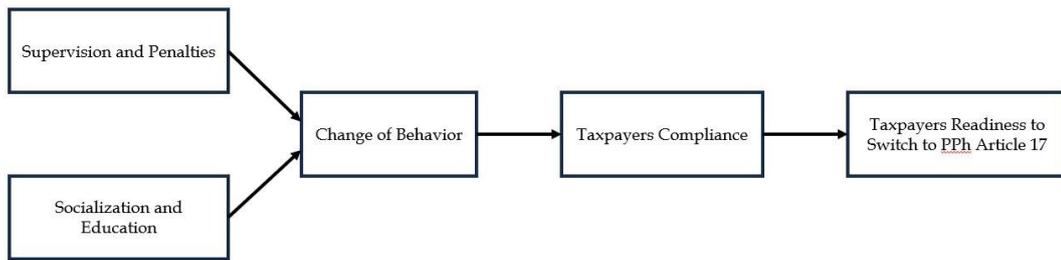


Figure 6. The Correlation Between Supervision and Penalties, Socialization and Education, and Taxpayers' Compliance and Taxpayers' Readiness Factor

Source: Research Data (2023)

Factor 5, Internal motivation of MSME individual taxpayers. The research has identified taxpayers' internal motivation element as a novel variable. According to the interviews conducted, it was observed that both individual taxpayers and tax authorities identified specific factors that motivate MSME taxpayers to comply with their tax responsibilities. For instance, many individuals register to get a TIN or report their annual tax report for credit application purposes. In addition, there is also a selected group of taxpayers who display remarkable knowledge, comprehension, and compliance with tax regulations. These individuals engage in transactions with specific counterparts, including government treasurers and entities classified as taxable entrepreneurs (PKP). Individual taxpayers under the MSME category who express interest in participating in the government's e-Catalog must acquire the Taxpayer Status Information (KSWP). To get this designation, MSME individual taxpayers must provide their yearly self-assessment tax report for the preceding two fiscal years. In addition to considerations related to taxpayers' interests, there exists a subset of individual taxpayers engaged in MSMEs that fulfill their obligations voluntarily. Individual taxpayers operating under the MSME category who have chosen to participate voluntarily conscientiously fulfill their tax responsibilities in adherence to the relevant legal provisions.

"If the MSME does not activate its TIN, then the KSWP report will not have a checklist. In that case, we could never get orders from the government." (AJ, 2023)

"... there are voluntary ones. Maybe because you heard something like that from a colleague or neighbor, right? Some are aware and register for TIN themselves. There are those who are voluntary." (MR, 2023)

"Whether I am ready or not, I am OK with following the rules. As for me, I am the only individual who has so far followed the government's lead. I do not want to argue." (WD, 2023)

Aside from that, MSME individual taxpayers who do business with government treasurers and PKP often have a good understanding of taxation. For example, taxpayers may submit a certificate of use of the final tariff of personal income tax to the transaction counterparty for the tax to be deducted at the final rate, which is lower than the rates of Article 22 and Article 23 Concerning Income Tax. This certificate is only available if an annual tax report has been reported. In other words, those taxpayers are also in relatively good compliance in situations like these.

"Sometimes, in transactions with companies, there is a deduction for PPH 23. For example, if he understands taxes and is compliant, he will give a certificate only to deduct the final PPh, whose rate is lower. That means that you already understand your obligations well enough. So, they comply, too. For example, he can access the certificate, meaning his annual tax report has been submitted, and his payments have

been correct. So, he can use a certificate and get a half-percent deduction instead of higher tariffs on those under Article 23.” (MR, 2023)

According to the findings of this study, taxpayers' internal motivation affects their tax knowledge, comprehension, and compliance. Meanwhile, boosting MSME individual taxpayer compliance may enhance the readiness of MSME individual taxpayers to transition to Article 17 concerning the Income tax system. Figure 7 depicts the association between these factors.

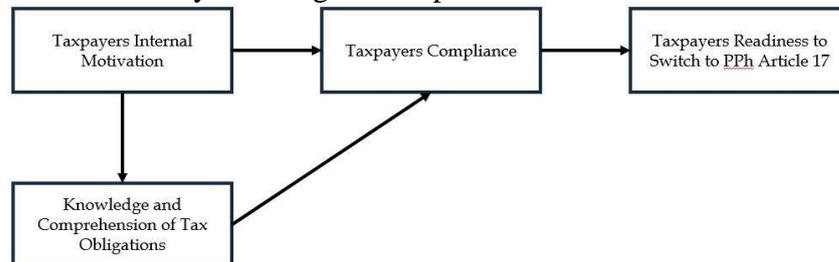


Figure 7. The Relationship Between Taxpayers' Internal Motivation, Knowledge and Comprehension of Tax Obligations, and Compliance and Taxpayers' Readiness Factor

Source: Research Data (2023)

Factor 6, business size. This factor was found in interviews conducted with the Account Representative.

“But when it comes to turnover levels, it is quite varied. But you could say that if we say the turnover is high, the chances of compliance are high.” (MR, 2023)

“I think yes, because usually there are taxpayers who have a large turnover, maybe those who have reached 1 billion or 2 billion Rupiah, usually they also trade with companies.” (MR, 2023)

According to MR, MSME individual taxpayers with turnovers more significant than 2 billion rupiahs are more likely to comply with tax regulations. This is because MSME individual taxpayers with this turnover typically sell to businesses or the government. Firms and the government collect and withhold taxes in these transactions, requiring MSME individual taxpayers to comprehend tax regulations, keep records, and perform bookkeeping to track the amount of tax withheld or collected. MSME individual taxpayers with a billion-dollar turnover also have more experience meeting tax requirements. Furthermore, with increased economic ability, MSME individual taxpayers can hire exceptional staff to handle financial and tax matters. As a result, the firm's size can influence MSME individual taxpayers' readiness to convert to Article 17 of the PPh law system. The larger the company, the more capable MSME individual taxpayers are of adapting their taxation process to the standard taxation mechanism.

4. CONCLUSION

4.1 Conclusion

The research effectively found six main factors that affect how ready MSME taxpayers are to switch to standard taxation mechanisms using rates outlined in Article 17 concerning Income Tax when they use presumptive tax facilities, which apply final tax rates. Tax socialization and education directly impact the comprehension of MSME taxpayers, with the awareness of tax responsibilities associated with their status as MSME taxpayers moderating this relationship. The optimal approach to enhancing compliance among taxpayers through tax outreach and education involves establishing an MSME community with a comprehensive

understanding of their tax responsibilities. Intensive programs focused on business development and fulfilling tax obligations can achieve this understanding. The second key determinant impacting the preparedness of MSME taxpayers is the practice of bookkeeping and recordkeeping. Using standard tax procedures to compute income tax liabilities necessitates that MSME taxpayers generate an income statement to determine the amount of tax owed. Hence, MSMEs must undertake an accounting procedure encompassing all their financial activities to change to a standard tax system. Many MSME taxpayers currently need help accurately documenting their revenue and inventories. The third key determinant influencing the readiness of MSME taxpayers is the implementation of monitoring mechanisms and the imposition of sanctions on taxpayers who fail to adhere to relevant tax legislation. Implementing monitoring mechanisms and imposing sanctions on taxpayers who fail to adhere to applicable tax legislation can effectively impact the behavior of individual taxpayers by heightening their level of caution. By exercising greater caution, MSME taxpayers can enhance their compliance levels, increasing their preparedness to shift to standard taxing methods. This study revealed a significant association between the fourth element, which pertains to the compliance of MSME taxpayers, and other aspects, including socialization and education, as well as monitoring and enforcement measures. The encouragement of socialization and education, effective monitoring, and the implementation of appropriate consequences can foster behavioral changes that lead to greater compliance with tax requirements. The enhanced level of compliance will ultimately improve the readiness of MSME taxpayers to transition toward standard taxation schemes. Evaluating the promptness of individuals in fulfilling income tax payments, submitting annual tax reports (SPT), and settling tax dues can assess the extent to which they adhere to their tax responsibilities. In addition, this study uncovers a novel finding regarding the internal incentive aspect demonstrated by MSME taxpayers. The aforementioned internal motivation significantly impacts individuals' acquisition of knowledge and comprehension about taxation and compliance. Enhancing the compliance of MSME taxpayers can bolster their readiness to transition toward normal taxation processes. The last determinant affecting MSME taxpayers' readiness is the scale of their business operations. Organizations of considerable scale commonly engage in business transactions with tax-compliant counterparts, including governmental entities and companies possessing taxable entrepreneurs (PKP) status. Through increased economic capability, MSME taxpayers can hire specialized personnel responsible for managing financial and tax matters. Therefore, taxpayers with larger firm sizes are more likely to possess the necessary resources and capabilities to effectively adjust their tax procedures to conform with standard taxing practices.

4.2 Limitation

The present study, however, exhibits several constraints. These limitations encompass using a restricted range of sources solely from a limited number of MSME sectors, with a particular focus on the culinary industry, and a turnover that falls below 500 million rupiah. Furthermore, a single account representative solely conveys the tax authority's perspective. Future researchers should enhance the breadth of their study by incorporating more sources, encompassing MSME taxpayers engaged in non-culinary sectors, policy officials, and academics.

4.3 Suggestion

It is recommended that subsequent researchers undertake a quantitative study on these determining aspects to investigate whether these characteristics positively or negatively impact

the readiness of MSME taxpayers utilizing the presumptive tax facility to transition to the standard taxation method.

4.4 Implication

This study offers valuable insights for the DGT on the key factors to consider when formulating communication strategies and regulations about tariff switching in the MSME sector. The DGT can prioritize its efforts towards important aspects that substantially impact the preparedness of MSME taxpayers for the move to standard tax systems. The prioritization includes enhancing the efficacy and efficiency of tax strategies and policies designed explicitly for the MSME sector.

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