

## **Factors Hindering Tax Law Enforcement in the UMKM**

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### **ABSTRACT**

This article discusses the inhibiting factors in tax law enforcement in the UMKM sector in Indonesia, focusing on complex regulations, lack of tax understanding and awareness, and limited use of technology. This study shows that UMKM are often hampered by complicated and frequently changing tax regulations, which leads to uncertainty and confusion in fulfilling tax obligations. In addition, a lack of understanding of the tax system and a low awareness of the importance of tax compliance exacerbate this problem. Not only that, the limitations in the use of digital technology in the UMKM sector also worsen the effectiveness of tax administration. As a result, many UMKM tend to avoid their tax obligations. This study uses a descriptive qualitative approach by examining literature and data from various relevant sources to understand this issue more deeply. In order to overcome these obstacles.

**Keywords:** Factors, Inhibitors, Enforcement, Law, UMKM

### **1. INTRODUCTION**

Taxes are a major pillar in state revenue that is used to support various development needs, including education, health, infrastructure, and public services. In the Indonesian context, the Micro, Small, and Medium Enterprises (MSMEs) sector plays an important role in encouraging economic growth. According to data from the Ministry of Cooperatives and MSMEs, this sector contributes more than 60% to the Gross Domestic Product (GDP) and absorbs around 97% of the workforce in Indonesia. However, the contribution of the UMKM sector to national tax revenue is still far from optimal, which is mostly caused by various obstacles in tax law enforcement (Sutrisno 2021).

Micro, Small, and Medium Enterprises (UMKM) are one of the main pillars of the economy in Indonesia. Based on Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises. UMKM are the backbone of Indonesia's economy, but the sector needs stronger support to face challenges and increase its contribution to national development. With the right combination of policies, empowerment, and technology adaptation, UMKM can develop into highly competitive economic drivers (Haris, M., & Ismail 2020).

This study was conducted to identify and analyze the factors that hinder tax law enforcement in the UMKM sector. The solution sought is improvements in tax policies and more effective implementation. A qualitative approach is used in this study, which involves in-depth interviews with UMKM actors, tax officers, tax consultants, and review of policy documents. This



method allows for an in-depth exploration of the perceptions and direct experiences of stakeholders regarding barriers to tax law enforcement

This study identifies various factors that hinder tax law enforcement in the Micro, Small, and Medium Enterprises UMKM sector. These factors can be grouped into two main categories: internal factors originating from taxpayers, and external factors originating from tax authorities and the tax system

**Internal Factors: Obstacles from Taxpayers****a. Lack of Understanding of Taxation**

Most UMKM actors do not have an adequate understanding of their tax obligations. This includes a lack of knowledge about tax reporting procedures, payment methods, and legal consequences for not complying with tax rules. This ignorance is often caused by the lack of tax literacy among small business actors, especially those operating in remote areas (Darmawan, D., & Nugroho 2019).

**b. Lack of Awareness and Motivation to Pay Taxes**

UMKM actors often have the view that taxes are an additional burden that reduces their business profits. Low trust in the government and lack of information about the use of tax funds are also the main reasons why they are not motivated to comply with tax obligations (Subroto 2020).

**c. Unorganized Financial Administration**

Most UMKM do not have a neat and well-organized financial recording system. This causes difficulties for UMKM actors in calculating their tax obligations accurately. Simple or even non-existent financial records also make it difficult for business actors to meet tax administration requirements (Kurniawan 2021)

**External Factors: Barriers from Tax Authorities and the Taxation System****a. Limited Human Resources at Tax Authorities**

Tax authorities have a limited number of tax officers who are tasked with supervising millions of UMKM actors throughout Indonesia. This makes the supervision of UMKM taxpayers less optimal, especially in remote areas that have fewer tax officers than needed (Kusufiyah and Anggraini 2024).

**b. Complexity of Tax Regulations**

The tax system in Indonesia is often considered too complicated by UMKM actors. Regulations that are complex and often change without adequate socialization make it difficult for UMKM actors to understand their tax obligations. This condition is

exacerbated by the inconsistency between central and regional regulations, which often confuses taxpayers (Primasari, S., & Hendrani 2022).

c. Lack of Technology Utilization

Although the government has introduced a digital-based tax system to make it easier for taxpayers, many UMKM actors have not been able to make full use of it. This is due to low digital literacy among UMKM actors and limited technological infrastructure, especially in remote areas (Okid Parama Astirin, Irfan Jalal Hibban, Muhamad Ihsan Zuhdi Imran Hidayah 2021).

Previous studies, such as Sutrisno's (2019) research, show that the main obstacles to UMKM tax compliance include a lack of understanding of tax obligations and the complexity of the tax administration system. However, the study has weaknesses because it focuses only on the perspective of taxpayers and does not consider the role of tax authorities in the context of law enforcement. Another study by the Direktorat Jenderal Pajak (2022) states that the limitation of human resources in tax institutions is a significant challenge. However, this study did not delve into the cultural and social factors that affect tax compliance (Pajak 2022)

This study is expected to overcome the limitations of previous studies by providing a holistic approach that includes internal factors (such as taxpayer understanding and awareness) and external factors (such as limitations of tax authorities and regulatory complexity). The main argument of this study is that effective tax law enforcement requires a synergy between a better understanding of UMKM actors, clear and fair regulations, and optimal supervision and support from tax authorities

Through qualitative methods, it is hoped that a more thorough understanding of the inhibiting factors and potential solutions to improve tax compliance and enforcement in the UMKM sector can be produced. Thus, this study aims to contribute to the formulation of tax policies that are more inclusive and responsive to the needs of the UMKM sector.

## **2. RESEARCH METHOD**

This study uses a qualitative approach with a descriptive method to identify and analyze the factors that inhibit tax law enforcement in the Micro, Small, and Medium Enterprises UMKM sector. This approach was chosen because it is able to dig deep into data and provide a comprehensive understanding of complex and multidimensional problems. Data is collected through:

In-Depth Interviews: Conducted to UMKM actors, tax officers, and tax consultants to explore the obstacles faced. Document Study: Analysis of official documents, such as the

Directorate General of Taxes report and tax regulations, to understand the policy context.

Observation: Directly observing the tax administration process in UMKM

Data analysis is carried out through stages: Data Reduction: Simplifying and selecting relevant data from interviews, documents, and observations. Data Presentation: Data is presented in the form of descriptive and thematic narratives to identify key patterns. Drawing Conclusions: Drawing conclusions from the findings obtained to answer the research question

### **3. RESULTS AND DISCUSSION**

This study identifies various factors that hinder tax law enforcement in the Micro, Small, and Medium Enterprises (MSMEs) sector. Based on data obtained through in-depth interviews and document analysis, it was found that these obstacles can be categorized into internal factors (from the taxpayer's side) and external factors (from the tax authorities and the tax system). The following is a detailed discussion of the findings:

#### **Internal Factors: Obstacles from Taxpayers**

##### **a. Lack of Understanding of Taxation**

Most UMKM actors have limited knowledge about their tax obligations, including reporting procedures, payments, and applicable legal sanctions. This understanding is not only limited to the concept of taxation but also to the technical rules that change frequently (Murti et al. 2024).

a). Analysis: This finding is consistent with Sutrisno's (2019) research, which states that low tax literacy is the main cause of low tax compliance. However, this study adds that the literacy factor is often influenced by the level of education and access to information of UMKM actors, which varies between regions.

b). Implications: More massive counseling and training are needed to improve tax literacy, especially for UMKM in remote areas.

##### **b. Lack of Awareness and Motivation to Pay Taxes**

Low trust in the tax system, especially related to the transparency of the use of tax funds, causes UMKM actors to have no motivation to pay taxes. Some UMKM actors consider taxes as an additional burden that reduces their profit margins (Yusro and Kiswanto 2014)

a). Analysis: A study by the Direktorat Jenderal Pajak (2022) shows that trust in the government is directly related to the level of tax compliance. The study reinforces this argument by adding that socio-cultural factors, such as public perceptions of taxes as an "additional cost," also influence this attitude.

b). Implications: There needs to be an effective communication campaign to show the direct benefits of taxes for the community, especially for UMKM actors.

c. Unorganized Financial Administration

Most MSMEs do not have a good financial record-keeping system, which leads to difficulties in calculating and reporting their tax liabilities (Dewi and Fitriya 2021)

a). Analysis: This study highlights that this problem is not only caused by a lack of technical skills but also by the lack of incentives for UMKM to adopt a more formal financial record-keeping system

**External Factors: Barriers from Tax Authorities and the Taxation System**

a. Limitations of Human Resources at Tax Authorities

Tax authorities face challenges in supervising millions of MSME actors with a limited number of tax officers. This suboptimal supervision leads to weak tax law enforcement (Suardi mahmud 2017)

a). Analysis: The Directorate General of Taxes (2022) states that the ratio of tax officers to taxpayers in Indonesia is still far below international standards. The study adds that this condition is exacerbated by the uneven distribution of officers, especially in remote areas

b). Implications: There is a need for additional recruitment and special training to increase the capacity of tax officers, as well as the use of technology to expand the scope of supervision.

b. Complexity of Tax Regulations

Tax regulations are often considered too complicated and not in accordance with the capacity of UMKM actors. Changes in rules that often occur without adequate socialization are also one of the main causes of confusion among taxpayers

a). Analysis: These results support the findings of Sutrisno (2019), which states that complex regulations tend to make UMKM avoid their tax obligations. However, the study highlights that these shortcomings are also related to the lack of harmonization between central and regional regulations.

b). Implications: Simpler regulations are needed that are tailored to the scale of the business, such as a flat tax rate for certain UMKM, to improve ease of compliance.

c. Lack of Technology Utilization

Although the government has introduced a digital-based tax system, many MSMEs have not been able to take advantage of it due to limited access to technology and digital literacy (Octiva et al. 2024)

- a). Analysis: This study identifies that this factor is more dominant in UMKM in remote areas that have limited digital infrastructure

### **Proposed Solutions**

Based on the findings, some solutions that can be applied are:

1. Increasing Tax Literacy, the Government needs to intensify tax education programs that focus on UMKM, both through direct counseling and easily accessible digital platforms.
2. Simplification of Tax Regulations and Procedures, Developing tax regulations that are simpler and easier to understand for UMKM actors, such as implementing a turnover-based final tax system more widely.
3. Leveraging Technology to Expand Reach: Improving a user-friendly technology-based tax system, including a simple application for tax reporting for UMKM, can help improve compliance.
4. Incentives for Tax Compliance, Providing incentives, such as tax breaks or access to low-interest loans for compliant UMKM, to increase their motivation in fulfilling tax obligations.

### **4. CONCLUSIONS**

Tax law enforcement in the UMKM sector in Indonesia still faces various obstacles, although the government has implemented a number of policies and incentives to improve tax compliance. The main obstacles include low tax literacy, negative perception of the tax legal system, and the complexity of tax administration. Although policies such as the 0.5% Final Income Tax rate and tax exemption for UMKM with a certain turnover have been implemented, the level of tax compliance is still inadequate due to the lack of socialization and less than optimal policy implementation. Digitalization in the tax process has great potential to simplify administration and improve accessibility for UMKM. However, the application of this technology requires additional education to ensure widespread adoption by UMKM actors.

To overcome these obstacles, measures such as increasing tax education, simplifying administrative processes, and optimizing digital-based technology need to be implemented. With the implementation of more effective policies and sustainable support, it is hoped that the UMKM sector can contribute more to national tax revenues while supporting inclusive economic growth.

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