# STRATEGIES TO IMPROVE TAXPAYERS' COMPLIANCE OF INDONESIAN MICRO SMALL AND MEDIUM ENTERPRISES: PRISMA APPROACH

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**ABSTRACT**

*Micro, Small, and Medium Enterprises (MSMEs) have a major contribution to the economy of developing countries. However, the contribution of this sector to state revenues from the tax sector is still low because the level of compliance and tax payments of MSME taxpayers are still low. This research examines the strategies which can increase the MSMEs' compliance level regarding the amount of payment and tax return report. This study uses the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) as a guide for conducting a systematic literature review of articles meeting the predetermined criteria. This study shows that the research model on the strategy to improve MSMEs' compliance is dominated by quantitative studies, qualitative studies, mixed-methods, literature reviews, and experimental studies. This study suggests ten strategies to be used by the tax authority to improve MSME taxpayers' compliance. The ten strategies are providing tax education and training, service modernization, applying the same sanctions to all non-compliant taxpayers, tax reform, increasing public trust in tax authorities and government to increase voluntary compliance, improving MSME tax morale, maintaining and increasing engagement with taxpayers, increasing awareness and tax knowledge of taxpayers about the penalties and sanctions, supporting MSME business actors, and applying behavioral insights approach. This study recommends that tax authority should identify factors that affect MSME taxpayers' compliance and create strategies to improve the MSME taxpayers' compliance.*

*Keywords: Strategies, Directorate General of Taxes, Compliance, MSMEs, Systematic Literature Review, Taxpayer Behavior, Taxpayer Compliance.*

# INTRODUCTION

## Background

Taxes are the main source of funding for a country. Almost all countries in the world rely on taxes as their main source of income. Based on the 2020 State Budget (APBN) posture presented on the Indonesian Ministry of Finance website, the percentage of tax on state revenue reaches 83.54%. Micro Small and Medium Enterprises (MSMEs) have a significant contribution to the country's economy (OECD, 2014). During the past monetary crisis, MSMEs could survive and thrive even though many large-scale businesses suffered losses and had to close their businesses. Currently, MSMEs are a type of business which is dominant and becomes an economic milestone in Indonesia because of their contribution to gross domestic product (GDP) reaching 60% (Pertiwi et al., 2020). Currently, the level of compliance and the amount of tax payments from MSME taxpayers are still low. Thus, the contribution of MSMEs to state revenues from the tax sector has not been maximized. The Directorate General of Taxes (DGT) as the Indonesian tax authority stated that the number of MSME taxpayers who paid taxes in 2019 was 2.31 million taxpayers. The amount consists of 2.05 million individual taxpayers and 257,000 corporate taxpayers. The tax obtained from the MSMEs sector is still relatively small and can be increased.

Increasing tax payments from the MSMEs sector requires an appropriate strategy. The key point of taxpayer compliance is obedience in paying and reporting tax obligations, both formally and materially. According to Nurwanah et al. (2018), taxpayer behavior has a significant impact on tax compliance intentions. Therefore, increasing the level of taxpayer compliance will automatically increase state revenues from the taxation sector. This will create a nation's independence in managing its state budget and expenditures, so that there is no need to go into debt to cover the deficit income.

Some literature implicitly discusses strategies to improve taxpayer compliance. Resmi et al. (2021) stated that MSME taxpayers need training in preparing financial reports and tax reporting procedures because after receiving training, they become more aware of the importance of financial statements and tax reports. Tax service digitization strategy (Arendsen et al., 2014; Purnamasari & Sari, 2018; Purwono et al., 2021; Widjaja, 2021), education strategy (Peprah et al., 2020), tax audit strategy (Alshira'h & Abdul-Jabbar, 2020), tax morale (Bornman & Ramutumbu, 2019; Ghani et al., 2020; Yücedogru & Hasseldine, 2016), government support strategy (Huong & Cuong, 2019), tax fairness system (Ullah et al., 2018), tax knowledge (Newman et al., 2018; Poppelwell et al., 2012),

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**APPLICATIONS FOR PRACTICE**

- MSMEs significantly contribute to the country's economy, but the contribution to state revenues from the tax sector has not been maximized.
- Tax authorities require the right strategy to increase MSME tax payments and MSME taxpayer compliance.
- Ten strategies that can be used to increase MSME taxpayers' compliance are providing tax education and training, service modernization, applying the same sanctions to all non-compliant taxpayers, tax reform, increasing public trust in tax authorities and government to increase voluntary compliance, improving MSME tax morale, maintaining and growing engagement with taxpayers, raising awareness and tax knowledge of taxpayers about the penalties and sanctions, supporting MSME business actors, and applying behavioral insights approach.

perception of corruption (Rosid et al., 2016), effective engagement strategy (Langham & Paulsen, 2015), and tax service (Rahmawati & Nasih, 2020) have a significant effect on MSME taxpayers' compliance.

Literature reviews on tax compliance have been conducted by many researchers such as Holzinger and Biddle (2016), Joshi et al. (2014), Newman et al. (2018), and Widjaja (2021). Holzinger and Biddle (2016) summarize the evidence on behavioral insights related to SMEs' tax compliance by conducting a literature review of several articles. However, they did not detail what articles they reviewed and how these articles were obtained. The paper suggests that tax authorities should apply a behavioral insight approach to improve tax compliance. Meanwhile, Joshi et al. (2014) conducted a literature review on informal economy taxation aiming to know the current state of knowledge and obtain a research plan for the future. Like Holzinger and Biddle (2016), Joshi et al. (2014) did not detail what articles they reviewed and how they obtained the articles. Newman et al. (2018) evaluated the effect of tax knowledge on SMEs' tax compliance in developing countries using a literature review. Like the two previous studies, Newman et al. (2018) did not detail what articles they reviewed and how they obtained them. Widjaja (2021) conducted a literature review to understand the level of awareness of tax payments through the adoption of digital tax services. This research reviewed 50 articles published in international journals but did not specify what papers were reviewed and how to obtain these articles.

The reviews of literature above have included various articles on tax compliance published in multiple journals. Nevertheless, no literature explicitly discusses the tax authority's strategy to improve MSME taxpayers' compliance. Therefore, the researchers conducted a systematic literature review on strategies to increase MSME taxpayers' compliance by following the preferred reporting items for systematic reviews and meta-analyses (PRISMA) guidelines. The researchers show how to get the final articles for review by following the PRISMA guidelines. It started with identifying articles in the academic journal database that match the research theme or keywords, then screening the articles obtained. After that, the researchers checked the eligibility of articles that passed the screening process to get several articles for review. In addition, in this study, the researchers provided a list of papers used as the basis for conducting a literature review. This eases readers to find out which articles were reviewed by the researchers. Therefore, the results of this study are expected to provide systematic insights that can help tax authorities choose the strategy to improve MSME taxpayers' compliance. Such aspects become the novelty of this research, differentiating the study from the previous research.

Implementing the right strategy will increase the level of taxpayers' compliance and hence increase state revenue from the tax sector. This will create independence of a country in managing its state budget and expenditures, so that there is no need to go into debt to cover the deficit income.

## LITERATURE REVIEW

### Strategy

The word strategy comes from the classical Greek "stratus" which means army and the word "agein" which means a leader. Thus, the meaning of strategy is to lead the army. Then, came the word "strategos" which means army top-level's leaders. Based on those origin words, the strategy is a military concept that can be interpreted as the war's art of the generals (The Art of General) or a design that is the best for winning the war.

Strategies generate ideas and conceptions developed by practitioners. Therefore, strategists are not only born among those with a military background, but also other professions.

According to Rangkuti (2009), strategy is a tool for achieving long-term goals, following-up programs, and prioritizing resource allocation. David (2010) defines strategy as a joint means with long-term goals to be achieved, potential actions that necessitate huge quantities of firm resources, and top-level management decisions. Meanwhile,

Marrus (2002) defines strategy as a process of determining an organization's long-term plans by top management and making arrangements for efforts to achieve the goals that have been set. According to Siagian (2004), strategy is a set of important decisions and activities taken by top management that all organization members must carry out to achieve organizational goals.

Based on such definitions, strategy is important to be understood by every executive, manager, head or chairperson, director, senior and junior officials, high, middle and low officials. They must understand the strategy because it is implemented by everyone at every level, not only by high-ranking officials.

### Directorate General of Taxes

As a state revenue collection agency, DGT plays a vital function in the government because more than 70% of state revenue comes from taxes. This makes tax involvement in developing the country very important. All Indonesians have high expectations of DGT as the Indonesian tax authority to collect revenue optimally.

In order to serve the stakeholders and carry out their duties as a tax collection institution, there are various potentials and challenges faced by the Indonesian tax authority. The potentials and challenges faced by the Indonesian tax authority are considered in preparing a strategic plan. The potentials and problems that the Indonesian tax authority are not limited to the revenue function carried out by the Ministry of Finance. However, it includes the internal conditions of DGT, comprising Institutional Transformation, Human Resource Management, and IT Development.

Recently, the Indonesian government is implementing reforms in tax policy and tax administration. This set of reforms is projected to increase the number of taxpayers who comply with the tax law, broaden the tax base, and encourage investment, ultimately increasing tax revenue.

To support the National Development Agenda, taking into account general conditions, potential, challenges and documentation of stakeholder expectations, DGT has a vision of "Becoming a trusted partner of national development to collect state revenue through effective and efficient tax administration with integrity and justice." To realize that vision, DGT has four missions. The first is increasing tax compliance through quality and standardized services, education and adequate supervision, and fair enforcement. The second is developing digital-based core business processes supported by an adaptive and collaborative organizational culture. The third is formulating tax regulations that support Indonesia's economic

### Table 1. Strategic Initiatives of Indonesian Tax Authorities

| No | Strategic initiatives |
|----|----------------------|
| 1 | Changes in services in the digital direction |
| 2 | Revitalizing the role of the contact center in the development of taxation services |
| 3 | Education and public relations activities can increase taxpayer compliance |
| 4 | The development of the supervision model through the territorial approach |
| 5 | Supervision of taxpayers based on segmentation |
| 6 | Fair tax administration law enforcement |
| 7 | Appropriate criminal law enforcement |
| 8 | Optimal legal remedies |
| 9 | Reform of the core system of tax administration |
| 10 | Organizational transformation according to changes in business processes. |
| 11 | Improving the quality of taxation data and information |
| 12 | A compilation of DGT geographic information systems |
| 13 | Reforming the system towards transparent and legal certainty regulations |
| 14 | Development of a comprehensive internal control system |
| 15 | Improved career management systems. |

Source: Directorate General of Taxes (2020)

growth. The fourth is realizing an integrated, professional, and motivated tax apparatus.

The policy direction and strategy of the Indonesian tax authority are prepared to support the national development priority plan, achieve the Ministry of Finance's objectives, and encourage the realization of the Indonesian tax authority's objectives. There are fifteen objectives of the Indonesian tax authorities under the strategic plan of the Indonesian tax authorities for 2020-2024 in the form of strategic initiatives, which are presented in Table 1.

**Taxpayers Compliance**

The phrase "compliance" refers to both obedience and discipline. In the subject of taxation, compliance can be described as a state in which taxpayers meet all of their tax duties and exercise their entitlements (Rahayu, 2010). According to Cuccia (1994), taxpayer compliance means filling out and reporting tax returns accurately and on time under tax regulations in force when the tax returns are reported. There are two types of compliance:

formal and material. Formal compliance refers to a condition when taxpayers formally complete their tax responsibilities under the requirements of tax laws. The term "material compliance" refers to a taxpayer's behavior in complying with all material terms of taxation. Pertiwi et al. (2020) define taxpayer compliance as the accomplishment of tax responsibilities as a means of contributing to the country. To make it easier to interpret what compliance is, the authors define compliance as reporting and paying tax obligations on a timely basis.

Several studies discuss taxpayer compliance. Remali et al. (2018) found a significant effect of tax knowledge, tax rates, and tax sanctions on MSME taxpayer compliance. Partially, knowledge of taxation has the most considerable influence on MSME taxpayers' compliance. Therefore, if taxpayers have good tax knowledge, it will make it easier for them to fulfill their tax obligations so that taxpayer compliance will increase. Based on Pertiwi et al. (2020) study, the dimensions of general fairness, tax rate structure, and personal interests affect MSME taxpayers' compliance. Other studies suggest that national pride, trust in the government, and the legal system have a significant effect either partially or simultaneously on taxpayers' compliance. (Musimenta et al., 2019).

Meanwhile, Ghani et al. (2020) mentioned that the level of tax compliance among the self-employed is unaffected by tax knowledge. The explanation for these results is the difference in tax jurisdictions. Emotional experiences, according to Enachescu et al. (2019), have a significant effect on tax compliance decisions. Consequently, when formulating policies to increase compliance levels, it is critical to consider taxpayers' subjective judgments. According to Hofmann et al. (2017), the sociodemographic of taxpayers, such as age and sex, are critical in tax research. Even though the correlation between age and sex to the tax compliance is debilitated and varies across countries, researchers are strongly advised to investigate age and sex effects explicitly in their research.

According to another study, the tax authority must ensure that taxpayers are treated fairly to accelerate taxpayer compliance. The transparent mechanism will build trust in the tax authority and make it easier for taxpayers to cooperate (Rizky et al., 2020).

**Tax Compliance Theories**

The standard theory of tax compliance is the risk aversion theory proposed by Allingham and Sandmo (1972). This theory states that no taxpayer is willing to pay taxes voluntarily (voluntary

compliance); therefore, taxpayers will always try to avoid their obligation to pay taxes (risk aversion). Based on this theory, the amount of declared income on the taxpayer's tax return is influenced by the taxpayer's behavior towards risk. According to this theory, the tax authorities must impose severe sanctions so that taxpayers comply with tax regulations and become compliant taxpayers.

Meanwhile, Devos (2014) divides the theory of taxpayer compliance into two, namely: the economic deterrence model and the fiscal and social psychology models. The approaches based on the economic deterrence model focus on prevention through punishment and persuasion. An example of punishment is to give the imposition of sanctions and stricter penalties for non-compliant taxpayers. Meanwhile, an example of persuasion is providing education to taxpayers. This model is usually used to check tax compliance and avoidance from a theoretical point of view. This model has seven factors, namely the complexity of the tax system, level of revenue information services, withholding and information reporting, preparer's responsibilities and penalties, probability of receiving audit coverage, progressive and actual level of tax rates, and penalties for non-compliance.

The fiscal and social psychology models combine economic deterrence and social psychology models. This model focuses on psychological variables such as moral values and perceptions of justice in the tax system and tax authorities. In the contrary to the previous model, which views a taxpayer as a utility maximizer, this model assumes that a taxpayer recognizes the role of forming attitudes and beliefs that interact in response to social norms. This model inductively tests the attitudes and beliefs of taxpayers to understand and predict their behaviors. In terms of the methodology used and the potential compliance aspects studied, the studies which deploy the fiscal and social psychology models are varied. For example, research on taxpayers' behavior uses the theory of planned behavior (TPB) and the theory of reasoned action (TRA) as theoretical lenses.

In this research, the researchers uses the taxpayer compliance theory proposed by Devos (2014), namely the economic deterrence model and the fiscal and social psychology models as the theoretical basis for analyzing strategies that can be applied by the tax authority to increase MSME taxpayers' compliance.

### Micro, Small, and Medium Enterprises (MSMEs)

Currently, in Indonesia, there are three definitions of MSMEs based on three different laws. According to Article 1 of Law No. 20 of 2008, MSMEs are productive companies owned by individuals or business entities that meet the law's micro-enterprise qualifications. A business is categorized as a micro business if it has a net worth of not more than fifty million or annual sales of less than three hundred million rupiahs. A business is categorized as a small enterprise if it has a net value of at least fifty million rupiahs and up to five hundred million rupiahs or yearly sales of at least 300 million rupiahs and up to two billion and 500 million rupiahs. A business is categorized as Medium Enterprises if it has a net value of at least 500 million rupiahs and up to ten billion rupiahs or yearly sales of at least 2.5 billion rupiahs and up to 50 billion rupiahs.

The Indonesian tax authority classifies MSMEs as taxpayers with an inevitable gross turnover. According to Government Regulation Number 23 of 2018 of the Indonesian on Income Tax on Business Income Received or Gained by Taxpayers with a Particular Gross Turnover Article 3 paragraph (1), taxpayers with an inevitable gross turnover are liable to Final Income Tax. The first criteria for this facility are all personal and corporate taxpayers, and the permanent establishment is not included. Second, taxpayers earn income from a business with a gross turnover of fewer than 4.8 billion rupiahs in a fiscal year, excluding revenue from services related to independent work.

In 2021, the Indonesian government changed the criteria for MSMEs by issuing government regulation number 7 of 2021. This regulation states that a business is categorized as a micro-enterprise if it has a business capital fewer than 1 billion rupiahs or a business circulation of less than equal to 2 billion rupiahs per year. In comparison, a business is categorized as a small business if it has a business capital between 1 billion rupiahs and 5 billion rupiahs or has a business circulation of 2 billion rupiahs up to 15 billion rupiahs per year. A business is categorized as a medium-sized business if it has a business capital of 5 billion rupiahs up to 10 billion rupiahs or has a business turnover of 15 billion rupiahs up to 50 billion rupiahs per year.

In this research, the definition of MSMEs used is the definition of MSMEs under government regulation number 23 of 2018 because until now, the tax authorities have not made any changes to the regulation. Therefore, the definition of MSMEs for tax purposes still refers to the regulation.

## RESEARCH METHODOLOGY

This study employs a systematic literature review approach. The authors follow the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines to conduct a literature review, as presented in Figure 1.

Several methods for gathering academic and peer-reviewed papers are used in this technique. The researchers collected the literature for this paper by conducting an online search. First, the researchers chose Scopus, ProQuest, Science Direct, and Google Scholar as academic journal databases. Keywords used for this search include "Strategy" OR "strategies" AND "Directorate General of Taxes" OR "DGT" OR "Tax Authority" AND "Compliance" AND "SME" OR "MSME." This search resulted in 1,895 articles matched with the keywords. Second, the researchers screened the 1,895 articles by limiting the year of publication of the research articles to the last eleven years (2010 - 2021); research articles only and the articles not related to the topic were excluded. The researchers found 146 relevant articles at this stage and eliminated 1,749 articles. Third, the researchers screened the 146 articles by limiting only open access articles. The researcher found 32 fully open access articles, and 114 papers were unavailable for access. Finally, the researchers chose 31 articles that are relevant for the research because two articles in two journal databases were similar. For the final stage, the researchers excluded one paper.

Figure 1. PRISMA Research Diagram
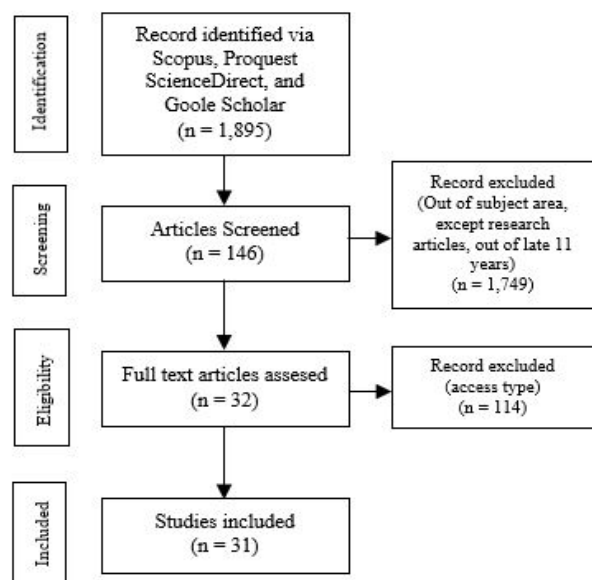


Source: The results of the author's data processing

## RESULT

### Literature Review Results

This study was conducted based on 31 articles published between 2010 and 2021. Only publications from the literature review and empirical research were analyzed. Meanwhile, the analysis did not include commentary, editorial notes, book reviews, or other types of publications in those journals. The topics of all papers examined

in this study are presented in Table 2 to ensure face validity.

Table 2. List of Articles Reviewed

| No | Authors | Topic | Journals |
|---|---|---|---|
| 1 | Resmi et al. (2021) | Financial report and taxation training for MSMEs | Jurnal Siasat Bisnis |
| 2 | Purwono et al. (2021) | E-filing strategy to improve taxpayer compliance | Jurnal Ilmu Administrasi |
| 3 | Widjaja (2021) | Digitalization of Tax Services | Annals of R.S.C.B. |
| 4 | Al-Ttaffi et al. (2021) | The influence of religious perspective on SMEs taxpayer non-compliance | International Journal of Ethics and Systems |
| 5 | Ababio & Mangueye (2021) | SMEs' perceptions of state legitimacy and their impact on tax compliance. | Journal of Financial Crime |
| 6 | Le et al. (2021) | Factors affecting SMEs tax compliance | Journal of Asian Finance, Economics and Business |
| 7 | Minh et al. (2021) | The effect of political connections and government support on SMEs tax payment | Finance Research Letters |
| 8 | Duy & Tran (2021) | Influence of international standards on SME tax compliance | Finance Research Letters |
| 9 | Alshira'h & Abdul-Jabbar (2020) | Moderating role of patriotism on SMEs tax compliance | International Journal of Islamic and Middle Eastern Finance and Management |
| 10 | Peprah et al. (2020) | Compliance with income tax administration among MSMEs | Cogent Economics & Finance |
| 11 | Ghani et al. (2020) | Tax Knowledge, Compliance Costs, Complexity, Morale, and Compliance | Global Business and Management Research |
| 12 | Rahmawati & Nasih (2020) | Analytic Network Process (ANP) method for increasing tax revenue from MSME | JBMP |
| 13 | Wadesango & Nyamwanza (2020) | Impact of tax amnesty on SMEs tax compliance | Academy of Entrepreneurship Journal |
| 14 | Huong & Cuong (2019) | government support to promote SME tax payments | Finance Research Letters |
| 15 | Millane & Stewart (2019) | Behavioural insights in tax collection | eJournal of Tax Research |
| 16 | Bornman & Ramutumbu (2019) | Tax compliance risk | The Southern African Journal of Entrepreneurship and Small Business Management |
| 17 | Miller (2019) | Tax Strategies Employed by Individuals and SMEs | Journal of Social Sciences Research |

| No | Authors | Topic | Journals |
|---|---|---|---|
| 18 | Ullah et al. (2018). | Tax Fairness System On Individual Compliance Behaviors | City University Research Journal |
| 19 | Newman et al. (2018) | The Impact Of Tax Knowledge On Tax Compliance Among SMEs | International Journal of Entrepreneurship |
| 20 | Purnamasari & Sari (2018) | The Effect of Modernization of Indonesia's Tax Administration System on Tax Compliance | International Journal of Computer Networks and Communications Security |
| 21 | Saeed et al. (2017) | increase the ability of SMEs to improve tax compliance | International Journal of Information, Business and Management |
| 22 | Kaplanoglou et al. (2016) | Tax compliance behaviour during the crisis | European Journal of Law and Economics |
| 23 | Rosid et al. (2016) | Influence perceptions of corruption on personal income taxpayer reporting behavior. | eJournal of Tax Research |
| 24 | Yücedogru & Hasseldine (2016) | SMEs tax morale | eJournal of Tax Research |
| 25 | Holzinger & Biddle (2016) | Behavioural Insights of Tax Compliance | Tax and Transfer Policy Institute |
| 26 | Langham & Paulsen (2015) | Effective engagement between tax authority and taxpayers | eJournal of Tax Research |
| 27 | Arendsen et al. (2014) | e-government is one way to reduce the administrative burden | Government Information Quarterly |
| 28 | Joshi et al. (2014) | taxation of the informal economy | The Journal of Development Studies |
| 29 | Dickinson (2013) | Academic literature and the taxation regulatory environment in Estonian SMEs | International Journal of Law and Management |
| 30 | Poppelwell et al. (2012) | Awareness and knowledge of taxpayers about the penalties and sanctions | eJournal of Tax Research |
| 31 | Coolidge (2012) | Tax compliance cost in developing countries | eJournal of Tax Research |

Source: The results of the author's data processing

Based on Table 2, six articles were from the eJournal of Tax Research, and two were from Finance Research Letters journal. As for other journals such as International Journal of Ethics and Systems, Journal of Financial Crime, Journal of Asian Finance, Economics and Business, Academy of Entrepreneurship Journal, Journal of Social Sciences Research, City University Research Journal, Cogent Economics & Finance, European Journal of Law and Economics, Finance

Table 3. Research Model

| No | Research Method | Amount | % |
|---|---|---|---|
| 1 | Experimental study | 1 | 3% |
| 2 | Literature Review | 5 | 16% |
| 3 | Mixed-Method | 7 | 23% |
| 4 | Qualitative Study | 6 | 19% |
| 5 | Quantitative Study | 12 | 39% |
| | **Total** | **31** | **100%** |

Source: The results of the author's data processing

Research Letters, Global Business and Management Research, International Journal of Entrepreneurship, International Journal of Information, Business and Management, International Journal of Islamic and Middle Eastern Finance and Management, Tax & Accounting Review, The Journal of Development Studies, The Southern African Journal of Entrepreneurship and Small Business Management, and other journals, each contributed 1 article.
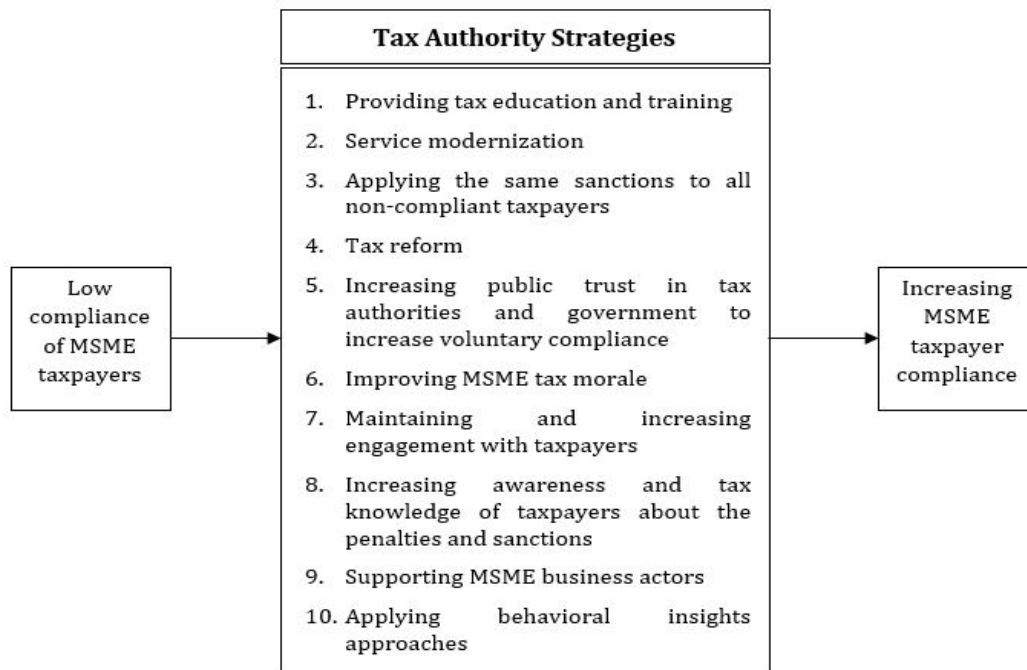
As presented in Table 3, 39% used quantitative method. Researchers commonly use this research method to obtain accurate data based on empirical and measurable phenomena. Furthermore, 19% of the articles used qualitative studies. Researchers commonly use this research method to understand meanings behind the visible data. 23% of the articles used mixed-method. This method is typically used to obtain complete, valid, reliable, and objective data and information as using the mixed-method will eliminate the weaknesses that exist in one method. Literature review was used for 16% of the articles we analyzed. Literature reviews are usually used to analyze the content of previously published articles. Finally, 3% of the articles used experimental studies. Researchers commonly use this research method to gain a deeper understanding of the causal relationship between variables. After analyzing the articles used as reference articles, the researchers identified each article's limitation (weaknesses) as presented in Table 4. Despite the limitations (weaknesses) of these articles, the findings and suggestions regarding strategies to improve MSME taxpayer compliance are still relevant to the research context.

Table 4. List of Research Limitation

| No | Authors | Limitation |
|---|---|---|
| 1 | Resmi et al. (2021) | This study analyzes the application of financial reports and taxation training for MSMEs taxpayers. It is not directly related to compliance but is likely to affect compliance in the future. |
| 2 | Purwono et al. (2021) | There is no quotation of interview transcripts in the paper, so readers may assume that what is written is data taken from secondary data, not from interviews with the interviewee. |
| 3 | Widjaja (2021) | The paper does not explain the criteria for selecting articles and does |

| No | Authors | Limitation |
|---|---|---|
| 4 | Al-Ttaffi et al. (2021) | not mention which articles are used for analysis. Non-compliance only measured in terms of a single hypothetical tax scenario. |
| 5 | Ababio & Mangueye (2021) | Limited to selected responden from Dodowa in the Shai-Osudoku District of Greater Accra Region. |
| 6 | Le et al. (2021) | However, this study used a combined method but did not explain the process and results of step 1, namely FGD and Face to face discussion. |
| 7 | Minh et al. (2021) | Limited to selected manufacturing SME respondents in Vietnam. |
| 8 | Duy & Tran (2021) | Limited to manufacturing SME data in Vietnam. |
| 9 | Alshira'h & Abdul-Jabbar (2020) | Measured actual behaviour rather than behavioural intention. |
| 10 | Peprah et al. (2020) | The research sample was only taken from one district. |
| 11 | Ghani et al. (2020) | Limited to Malaysian seff-employed responden. |
| 12 | Rahmawati & Nasih (2020) | This study does not explain the data obtained from observations, interviews, documentation, questionnaires, and literature studies. This study directly explains the data analysis using ANP. |
| 13 | Wadesango & Nyamwanza (2020) | Limited to selected 20 manufacturing SME respondents in Zimbabwe |
| 14 | Huong & Cuong (2019) | Limited to Vietnam manufacturing SMEs, which cannot necessarily be generalized to other types of MSME businesses. |
| 15 | Millane & Stewart (2019) | This study only examines the tax payment rules for the convenience of taxpayers in making their tax payments. |
| 16 | Bornman & Ramutumbu (2019) | This study examines the guest house business's tax compliance behavior, which cannot necessarily be generalized to other types of MSME businesses. |
| 17 | Miller (2019) | However, this study used a mixed methods but did not explain the results of qualitative method. |
| 18 | Ullah et al. (2018). | Just focus on salaried individuals and on very limited numbers of respondents. |
| 19 | Newman et al. (2018) | The paper does not explain the criteria for selecting articles and does not mention which articles are used for analysis. |
| 20 | Purnamasari & Sari (2018) | This study does not explain what analytical tools are used to test the hypothesis. |
| 21 | Saeed et al. (2017) | This study does not describe the qualitative and quantitative analysis process as mentioned in the research methodology. |
| 22 | Kaplanoglou et al. (2016) | Lack a time dimension and the number of samples that are less representative. |
| 23 | Rosid et al. (2016) | Treats perception data as a ratio variable while it is in fact an ordinal variable, excludes taxpayer reporting behaviour at an unintentional level, and limited to personal income taxpayers in Indonesia. |

| No | Authors | Limitation |
|---|---|---|
| 24 | Yücedogru & Hasseldine (2016) | Qualitative findings do not allow for generalizations and statistical inferences. |
| 25 | Holzinger & Biddle (2016) | This study does not explain the criteria for selecting articles and does not mention which articles are used for analysis. |
| 26 | Langham & Paulsen (2015) | This study discusses the effective engagement between ATO and taxpayers in general. Sometimes MSME taxpayers have their characteristics compared to taxpayers in general. |
| 27 | Arendsen et al. (2014) | This study examines e-government in general, although it discusses e-government for the tax authority. |
| 28 | Joshi et al. (2014) | The paper does not explain the criteria for selecting articles and does not mention which articles are used for analysis. |
| 29 | Dickinson (2013) | This paper is not made by chapter, so the reader is difficult to understand and must be careful in reading it. |
| 30 | Poppelwell et al. (2012) | This study only emphasizes how to reduce the level of MSME taxpayers' tax debt. |
| 31 | Coolidge (2012) | This paper does not describe the method used, and it seems to use a descriptive analysis of previous research. |

Source: The results of the author's data processing

The researchers found ten strategies that can be used by tax authorities to improve MSME taxpayers' compliance, as presented in Figure 2.

First, tax authorities must provide tax education and training to MSME business actors (Ababio & Mangueye, 2021; Al-Ttaffi et al., 2021; Bornman & Ramutumbu, 2019; Duy & Tran, 2021; Ghani et al., 2020; Le et al., 2021; Newman et al., 2018; Resmi et al., 2021; Peprah et al., 2020; Ullah et al., 2018; Wadesango & Nyamwanza, 2020) in the hope of increasing tax knowledge and compliance. Second, the tax authority must carry out modernization on an ongoing basis (Arendsen et al., 2014; Dickinson, 2013; Purnamasari & Sari, 2018; Purwono et al., 2021; Saeed et al., 2017; Widjaja, 2021) so that tax services become better, faster, and more accurate. Third, the tax authority must apply the same sanctions to noncompliance taxpayers under applicable tax regulations (Alshira'h & Abdul-Jabbar, 2020; Poppelwell et al., 2012) so that taxpayers will accept the tax rules. Fourth, the tax authority needs to carry out tax reforms (Arendsen et al., 2014; Coolidge, 2012; Dickinson, 2013; Ghani et al., 2020; Joshi et al., 2014; Millane & Stewart, 2019; Miller, 2019; Peprah et al., 2020) so that the tax rules are fairer, more accessible, and more timely for taxpayers. Fifth, the tax authority and the government must increase public trust in the tax authority and the government to increase voluntary

Figure 2. Research Findings Diagram

**Tax Authority Strategies**

Low compliance of MSME taxpayers

1. Providing tax education and training
2. Service modernization
3. Applying the same sanctions to all non-compliant taxpayers
4. Tax reform
5. Increasing public trust in tax authorities and government to increase voluntary compliance
6. Improving MSME tax morale
7. Maintaining and increasing engagement with taxpayers
8. Increasing awareness and tax knowledge of taxpayers about the penalties and sanctions
9. Supporting MSME business actors
10. Applying behavioral insights approaches

Increasing MSME taxpayer compliance

Source: The results of the author's data processing

compliance (Kaplanoglou et al., 2016; Minh et al., (2021). One way to increase trust is to reduce and eradicate corruption because the perception of corruption negatively impacts taxpayer compliance (Rosid et al., 2016). If public trust is still low, the tax authority must use its power to improve enforced compliance (Kaplanoglou et al., 2016). Sixth, the tax authority must increase MSMEs' tax morale because tax morale influences taxpayer compliance (Yücedogru & Hasseldine, 2016). Seventh, tax authorities must maintain and increase engagement with taxpayers by increasing the professionalism of tax officers and service delivery (Langham & Paulsen, 2015). Eighth, the tax authority must increase awareness and knowledge of taxpayers concerning the penalties and sanctions that will be received if they do not carry out their tax obligations according to tax rules (Poppelwell et al., 2012). Ninth, as part of the government, the tax authority must support MSME business actors to improve their financial performance (Huong & Cuong, 2019). Last, tax authorities must apply behavioral insight approaches even though it will be very challenging (Holzinger & Biddle, 2016).

### Strategies to Improve Taxpayer Compliance

Pertiwi et al. (2020) stated that because MSME taxpayers' compliance is still low, many MSME business actors and their considerable contribution to GDP is not yet comparable to MSME tax revenues. Taxpayer compliance is influenced by factors, including taxpayer awareness, perceptions of the

effectiveness of the tax system, tax convenience, and tax sanction.

Research findings regarding ten strategies that can be used by tax authorities to improve MSME taxpayers' compliance appropriate to the taxpayer compliance theory are proposed by Devos (2014). Three strategies, namely (1) providing tax education and training to MSME business actors, (2) increasing awareness and knowledge of taxpayers about the penalties and sanctions that will be received if they do not carry out their tax obligations according to tax rules, and (3) supporting MSME business actors to improve their financial performance, are suitable to the economic deterrence model because the approach uses punishment and persuasion. Meanwhile, seven other strategies, namely (1) service modernizing, (2) applying the same sanctions to all non-compliant taxpayers, (3) tax reforming, (4) increasing public trust in tax authorities and government to increase voluntary compliance, (5) improving MSME tax morale, (6) maintaining and increasing engagement with taxpayers, and (7) applying behavioral insight approach, are suitable to the fiscal and social psychology models because it focuses on psychological variables such as moral values and perceptions of justice in the tax system and tax authorities.

As the Indonesian tax authority, DGT has to make a strategy and improve MSME taxpayers' compliance. Based on the findings presented in the previous section, DGT can adopt the ten strategies

to improve MSME taxpayers' compliance. First, DGT must provide tax education and training to MSME business actors. One form of education that DGT can implement is socialization about tax regulations for MSME taxpayers. DGT conducts tax socialization as an effort to provide information, understanding, and guidance to the public, particularly taxpayers, on tax regulations (Savitri & Musfialdy, 2015). Tax socialization is classified into three categories: socialization activities for potential taxpayers, new taxpayer socialization activities, and registered taxpayer socialization activities. Taxation can be socialized in both direct and indirect ways. Socialization media that be generated by DGT include counseling, discussion with the taxpayers and public figures, information delivery from tax officials, billboards, and website creation.

In 2021, DGT appointed 2,351 tax counselors throughout Indonesia. A tax counselor is a civil servant whom the authorized official gives full duties, responsibilities, authority, and rights to conduct tax socialization. It is expected that with the existence of tax counselors throughout Indonesia, socialization and education on taxation will be carried out more often and more evenly so that the tax knowledge and tax awareness of MSME taxpayers will increase. Increased tax knowledge and tax awareness are expected to increase Indonesians' tax compliance.

DGT has educated the younger Indonesian people about the important role of taxes in developing a country. DGT launched the tax awareness inclusion program in education, and tax goes to school. Tax awareness inclusion is an effort made by the DGT and the ministry in charge of education to increase tax awareness of students, teachers, and lecturers by integrating tax awareness materials in curriculum, learning, and books. DGT aims to educate the younger generation as a generation of future economic actors to become citizens who have awareness of the life of the nation and state. Future generations must have a culture and character with a national perspective; love the homeland, defend the country, including the awareness of paying taxes. This tax awareness inclusion program has only been implemented in several universities in Indonesia. It still requires a process and time so that this program can run in universities throughout Indonesia.

Tax should be a compulsory subject for all students in Indonesia. As far as the researchers know, only accounting programs in universities have an introduction to tax courses. For other majors, they do not get an introductory tax course. Whereas in the authors opinion, all students should know and understand taxes so that after they graduate and have their own income, they will become tax-compliant citizens. If possible, this tax material is included in the compulsory curriculum for high schools. Because not all high school graduates can continue their studies at university, they have to work or open their businesses. They also must know at least or even understand taxation so that later, they become obedient taxpayers, and the level of taxpayers' compliance will increase. Improving taxpayers' compliance will increase state revenues so that financing for state development will be sufficient, the county does not have to add debt to finance our state budget.

Second, DGT must carry out modernization on an ongoing basis so tax services become better, faster, and more accurate. Services in the taxation sector can be interpreted as services that assist taxpayers in meeting their tax obligations. Excellent service in helping taxpayers fulfill their tax duties is critical because taxpayers will be more obedient in carrying out their commitments if they receive excellent service. DGT has attempted to implement an effective tax system by making several breakthroughs, including the tax return reporting system through e-SPT and e-Filing, e-billing, payment of taxes through e-Banking, tax return submission via dropbox, update of the latest tax regulations online via the internet and NPWP (tax identification number) registration via e-Register. Efforts to modernize tax services must continue to be carried out following technological developments and the latest conditions in the environment. In the covid-19 pandemic era, DGT changed several services that previously had to be conducted offline to become online. For example, the extension of electronic certificates and a tax identification number (NPWP) registration.

Third, DGT must impose regulated sanctions to noncompliant taxpayers. Sanctions should be enforced at the aim to raise awareness ensure that taxpayers comply with their tax obligations. Tax sanctions in the tax law are in the form of administrative and criminal sanctions. The tax sanctions are expected to increase taxpayers' compliance. Tax penalties serve as a disincentive to ensure that taxpayers do not break the rules. However, in practice, not all taxpayers are subject to tax sanctions due to negligence. Therefore, it creates a sense of injustice for taxpayers because other taxpayers are not subject to sanctions. Even though other taxpayers also made the same mistakes or omissions. According to Ariesta and Latifah (2017), the effect of tax sanctions partially demonstrates that the stronger the tax punishments, the greater the taxpayers' compliance. Therefore, tax penalties must be imposed evenly to all taxpayers who fail to meet their tax obligations.

Fourth, DGT needs to carry out tax reforms so that the tax rules are fairer and more accessible for taxpayers. Until now, DGT continues to carry out

reforms in taxation. The reform of the tax law, reform of the taxation bureaucracy, tax reform volume I, tax reform volume II and tax reform volume III are still being implemented. Tax reform volume III is the most significant reform in the history of taxation in Indonesia. It changes five main pillars: organization, human resources, IT and databases, business processes, and tax regulations.

Fifth, DGT and the government must increase public trust in the tax authority and the government to increase voluntary compliance. The level of public trust in DGT and the government is low. People are still reluctant to pay taxes because they do not want the tax they pay to be corrupted. It is in line with the research results of Rosid et al. (2016). The study finds that the perception of corruption in Indonesia is still high. Therefore, DGT and governments at all levels must be able to show performance and reduce the level of corruption so that the level of public trust in the government increases.

Sixth, DGT must increase MSMEs' tax morale because tax morale influences taxpayers' compliance. Tax morale is an intrinsic motivation to pay taxes (Torgler, 2012). All tax authorities worldwide definitely want to increase tax morale because increasing tax morale will increase taxpayers' compliance, similar to DGT, which always tries to increase the tax morale of taxpayers, especially MSMEs. To improve the tax morale of taxpayers, DGT must be able to touch the hearts of taxpayers. It can be done by educating taxpayers. According to Yücedogru andHasseldine (2016), DGT should reduce compliance costs and increase the professionalism of tax officers.

Seventh, DGT must maintain and increase engagement with taxpayers by increasing the professionalism of tax officers and service delivery. DGT must be able to create a tax officer who provides excellent service. If the tax officer can provide excellent service, the taxpayer will be satisfied. An increased level of taxpayer satisfaction will increase their engagement with taxes. Provisions to improve the quality of services provided by tax officials to taxpayers are regulated by SE-84/PJ/2011. The first rule, the service time is from 08.00 to 16.00 local time. Second, tax officers who deal directly with taxpayers must maintain good manners and behavior, be friendly, responsive, careful, and fast and not complicate the service. Tax officers must be respectful and humble to guests, officers always dressed neatly and wore shoes, always being friendly, giving 3S (Senyum, Sapa, Salam), wearing employee identity cards, listening carefully to what was said by the taxpayer, not doing other activities such as answering phone calls, eating and drinking or listening to music when providing services, and if there are services that need to be confirmed so that taxpayers do not wait too long, the officer can ask the taxpayer's phone number to be contacted again. The third rule, in responding to problems and providing information to taxpayers, officers should provide complete and transparent information/explanations so that taxpayers can understand well. To further convince taxpayers, officers can use brochures/technical service manuals. If the officers are not sure about the problem, they should immediately inform other officers, supervisors, or superiors concerned and notify the issues submitted by the taxpayer so that the taxpayer does not receive many questions. A security officer welcomes, asks for needs, and politely invites guests to take the queue number for every guest. The fourth rule would be better if the officer could explain how long the taxpayer has to wait. The last rule, if the officer is forced to reject the report or letter submitted by the taxpayer, for example, because it is incomplete, the officer must explain it clearly and in a friendly manner until the taxpayer understands it well.

Eighth, the DGT must increase awareness and knowledge of taxpayers about the penalties and sanctions that will be received if they do not carry out their tax obligations according to tax rules. There are two types of sanctions in the tax law: administrative and criminal sanctions. If the taxpayer violates the tax legislation, expressly the responsibilities outlined, they will get administrative sanctions. Interest penalties, fines, and increases are all examples of administrative sanctions. Criminal punishments, on the other hand, can include incarceration and imprisonment. To increase awareness and knowledge of taxpayers about the penalties and sanctions, DGT can carry out socialization and education. In addition, DGT can also carry out shock therapy by applying maximum sanctions such as imprisonment and confiscation of assets. The application of this maximum sanction must be disseminated to all taxpayers so that other taxpayers will become more aware of penalties and sanctions if they violate tax regulations.

Ninth, as part of the government, DGT must support MSME business actors to improve their financial performance. DGT has reduced special tax rates for MSME taxpayers as a form of support. The tax rate for MSME taxpayers has been reduced from 1 percent to 0.5 percent. This 0.5 percent tax rate of turnover takes effect on July 1, 2018. It has been done so that MSME taxpayers feel that the state has given them facilities by getting a lower tax rate so that their compliance with their tax obligations increases. More recently, Law number 7 of 2021 on the harmonization of tax regulations regulates facilities for MSMEs with a turnover of up to 500 million rupiahs a year which is not subject to tax and the application of a VAT rate of 1-3% for MSMEs with PKP status. In addition, DGT has a program called Business Development Service (BDS). This

program fosters and encourages sustainable MSME business development, increasing awareness, engagement, and compliance with taxes. The materials presented in the BDS program are in the form of taxation, bookkeeping, financial planning, digital marketing, or other materials according to the needs of MSME coaching participants.

Lastly, tax authorities must apply behavioral insights approaches to increase taxpayers' compliance. It will be challenging because DGT has to change individuals' (taxpayers) perspective towards their behavior in fulfilling their tax obligations.

## CONCLUSION

Based on the discussion, it can be concluded that to increase the level of compliance of MSME taxpayers is not easy. Therefore, the right strategy is needed. This study has identified ten strategies that can be used to increase the level of compliance of MSME taxpayers. The ten strategies are (1) providing tax education and training, (2) service modernizing, (3) applying the same sanctions to all non-compliant taxpayers, (4) tax reforming, (5) increasing public trust in tax authorities and government to increase voluntary compliance, (6) improving MSME tax morale, (7) maintaining and increasing engagement with taxpayers, (8) increasing awareness and tax knowledge of taxpayers about the penalties and sanctions, (9) supporting MSME business actors, and (10) applying behavioral insights approach.

This research provides feedback to tax authority top management, especially for making the right strategy to improve MSME taxpayers' compliance. Increased taxpayers' compliance will automatically increase state revenues from the taxation sector. It will create a country's independence in managing its state budget and expenditure so that there is no need to go into debt to cover the income deficit

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