

Community Service to Foster Indonesian Tax-Smart Small and Medium Enterprises

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Abstract. Small and Medium Enterprises (SMEs) are vital to the economic fabric, yet they face considerable obstacles in adhering to tax regulations due to the intricate nature of tax laws and their own constrained resources. Recognizing this, a community service initiative was launched to provide essential tax education, aimed at empowering SMEs with the knowledge and tools necessary to fulfill their tax responsibilities. The initiative took the form of an educational poster exhibition on taxation, which was organized by thirty-three students from the Diploma III of Taxation program at the University of Lampung. This exhibition was a highlight of the Lampung Craft 2024 event at Graha Wangsa, Bandar Lampung, and showcased the collaborative efforts of local government bodies, the University of Lampung, and a network of creative SMEs spanning fifteen districts and cities across Lampung, Indonesia. The event served as a platform for disseminating vital tax-related information, facilitating a better understanding of tax obligations among SMEs, and fostering a more compliant business environment. This synergy between education and practical application underscores the importance of community-driven approaches in addressing the challenges faced by SMEs in the realm of taxation.

Keywords: Small and Medium Enterprises (SMEs), Creative Economy, Tax Education, Tax Compliance, Lampung Craft.

1 Introduction

Taxation is a critical aspect of economic policy that affects SMEs in profound ways. These businesses, which form the backbone of economies, are sensitive to tax policies due to their limited resources compared to larger corporations. A well-structured tax system can provide SMEs with the necessary environment to grow and prosper. For instance, tax credits for research and development can incentivize innovation, while graduated tax rates can ease the financial burden on newly established SMEs. Tax incentives for SMEs can encourage entrepreneurship and stimulate economic growth. For example, reduced tax rates for reinvested profits can support business expansion and job creation. However, it's crucial that these incentives are designed to avoid creating loopholes that could be exploited, leading to revenue losses for the government. The intricacies of tax laws mean that SMEs must be diligent in maintaining accurate records, understanding their tax obligations, and meeting filing deadlines. This requires a level of expertise that many SMEs may not have in-house. Consequently, they may need to seek external advice or invest in training for their staff, which can be costly. However, the

investment in understanding tax compliance is crucial, as it can prevent costly penalties and interest on unpaid taxes, which can be particularly damaging for smaller businesses.

The landscape of tax compliance is ever-evolving, with governments regularly updating tax laws and compliance requirements. This dynamic environment can be challenging for SMEs to keep up with, but it also presents opportunities for those who can adapt quickly. For instance, taking advantage of tax credits and incentives can significantly reduce the tax burden on SMEs, allowing them to reinvest in their businesses. Another aspect to consider is the role of technology in tax compliance. Digital solutions can streamline the process of tax filing and record-keeping, reducing the likelihood of errors and the time spent on tax-related activities. SMEs that embrace these technologies can gain a competitive edge, as they can allocate more resources to core business functions rather than administrative tasks. Tax compliance is not just about adhering to legal requirements; it also reflects on a business's reputation. SMEs that are known for their compliance are more likely to attract investors and partners, as they demonstrate reliability and a commitment to ethical business practices. This can be particularly beneficial in attracting foreign investment, which often seeks out businesses with a strong compliance record.

Tax compliance among SMEs is a multifaceted issue with implications for economic policy and the integrity of fiscal systems worldwide. Tax compliance can be particularly challenging for SMEs due to the complexity of tax laws and the cost of professional tax advice. Tax rates, penalties and fines contribute greatly to tax compliance and tax compliance cost have the most significant influence on tax compliance [1]. The higher the compliance costs that a SME face, the more it has tendency to avoid paying taxes [2]. The complexity of tax laws can be a significant barrier. SMEs, particularly those without dedicated accounting departments, may struggle to navigate the intricate tax codes and reporting requirements. This complexity not only makes compliance challenging but also increases the cost of compliance in terms of time and resources. There is the perception of unfairness in the tax system. Some SMEs may feel that the tax burden is disproportionately heavy on them compared to larger corporations, which often have more resources to exploit legal loopholes and engage in aggressive tax planning. This perceived inequity can discourage SMEs from fulfilling their tax obligations, especially if they believe that their contributions are not leading to tangible benefits or improvements in public services. Another contributing factor is the lack of enforcement and the perceived low risk of detection. In some jurisdictions, the capacity of tax authorities to monitor and enforce compliance is limited, which can lead to a culture of non-compliance among SMEs. If the probability of being audited is low, and the penalties for non-compliance are not sufficiently deterrent, SMEs may take the risk of evading taxes. The informal economy plays a role in tax non-compliance. SMEs operating partially or wholly in the informal sector may not be registered for tax purposes, either due to a lack of awareness or a deliberate choice to avoid taxation. The informality can stem from various factors, including bureaucratic hurdles in formalization, the cost of compliance, or simply the habit of operating 'under the radar'. Additionally, financial constraints can force SMEs to prioritize short-term cash flow over tax payments. When faced with the immediate need to pay suppliers, employees, or creditors, taxes may be deferred, sometimes indefinitely. This is particularly true in times of economic downturn, where survival takes precedence over compliance. Moreover, the relationship between taxpayers and the government can influence tax compliance. A lack of trust in government institutions, coupled with a perception that tax revenues are not managed effectively or equitably, can lead to reluctance among SMEs to pay taxes. If taxpayers do not see the value in the services provided by the government, or if they witness high levels of corruption, their incentive to contribute to the public coffers diminishes. The influence of social

norms should not be underestimated. In environments where non-compliance is common and even accepted among peers, SMEs may be more likely to engage in similar behavior. The social acceptability of tax evasion can be a powerful motivator, particularly where there is a strong community of businesses that share information and strategies for minimizing tax liabilities. Simplifying tax regulations and providing clear guidelines can help these businesses comply with tax laws without diverting excessive resources away from their core activities. Additionally, tax authorities could consider offering digital tools to streamline the filing process, making it more accessible and less time-consuming for SME owners.

Taxes are one of the sources of revenue to finance state machinery [3]. Taxes allow a country to provide services and developments [4]. Tax regulation for SMEs in Indonesia is a critical aspect of the nation's economic framework. It is essential to understand that these policies not only influence the growth and sustainability of SMEs but also the overall economic health of the country. Indonesia, recognizing the significant role of SMEs in contributing to national income, employment, and regional development, has implemented various tax incentives and regulations to support these businesses. The current tax regime for SMEs in Indonesia is designed to be progressive and supportive, offering lower tax rates and compliance requirements compared to larger corporations. Taxes are a right of every taxpayer, not only an obligation to contribute to development financing with indirect benefits [5]. Indonesian government has introduced several tax reliefs for SMEs, such as value-added tax (VAT) exemptions for those with a certain turnover threshold, and a simplified tax reporting system to reduce administrative burdens. These initiatives demonstrate the government's commitment to fostering a conducive environment for SMEs to thrive. However, while the tax policies are supportive, there are challenges that SMEs face in navigating the tax system. The complexity of tax regulations and the lack of awareness among SME owners about available tax incentives often lead to underutilization of the benefits provided. Therefore, it is imperative for tax authorities to enhance their outreach and education efforts to ensure that SMEs can fully leverage the tax policies designed for their benefit.

The digitalization of tax services is an ongoing process that promises to make tax compliance more manageable for SMEs. The introduction of online tax filing and payment systems aims to streamline procedures, making them more efficient and less time-consuming. This digital transformation is expected to encourage better compliance rates among SMEs and improve the overall ease of doing business in Indonesia. The tax policies for SMEs in Indonesia are a testament to the government's recognition of the sector's importance. While the current framework provides a solid foundation for SME growth, continuous improvements and adaptations are necessary to address the evolving needs of these enterprises. As SMEs are pivotal to Indonesia's economic development, it is crucial that tax policies remain supportive, facilitating their progress and, by extension, bolstering the nation's economic prosperity.

While tax compliance can be a daunting task for SMEs, it is an indispensable part of conducting business. By understanding their tax obligations, staying informed about changes in tax laws, leveraging technology, and maintaining a commitment to ethical practices, SMEs can navigate the complexities of tax compliance successfully. This not only benefits the individual businesses but also contributes to the stability and growth of the broader economy. As such, tax compliance should be viewed not as a burden but as a vital component of a thriving business ecosystem.

Economic, educational and psychological factors affect tax compliance. Tax awareness is expected to happen due to the existence of sanctions and penalties from tax authorities. Those aspects are believed to play an important role in influencing the level of SMEs' tax compliance.

[6]. Integrating tax education into the community service framework can foster a culture of compliance. Educational initiatives could include the development of easy-to-understand tax guides, the dissemination of best practices for record-keeping, and the provision of insights into the benefits of compliance beyond mere legal obligation, such as access to government incentives and financial services.

3 Method

This community service was held in a form of educational taxation poster exhibition presented by 33 students of Diploma III of Taxation University of Lampung in a great exhibition of Lampung Craft 2024 in Graha Wangsa, Bandar Lampung on May 7-11, 2024. This event was held as a collaboration between local government agencies, Diploma III of Taxation University of Lampung and associated creative SMEs from 15 district and cities in Lampung, Indonesia.

Lampung's craft industry stands as a testament to the region's cultural richness and entrepreneurial spirit, contributing significantly to the local economy, particularly in the realms of small and medium enterprises (SMEs), education, and taxation. The intricate hand-woven textiles, pottery, and woodwork not only embody the artistic heritage of Lampung but also provide a sustainable source of income for many artisans. These crafts are not mere products; they are stories woven into fabric, carved into wood, and baked into clay, representing a legacy passed down through generations. Lampung's rich tradition of crafting, particularly the intricate Tapis embroidery, has long been a cornerstone of the region's cultural identity and has recently emerged as a significant contributor to its economic vitality. The meticulous artistry of Lampung crafts has not only provided a sustainable source of income for local artisans but has also played a pivotal role in the empowerment and growth of small and medium enterprises (SMEs). These enterprises, often family-owned and operated, have become instrumental in fostering community economic development, especially in the wake of challenges such as the COVID-19 pandemic. The income reduction for creative professionals during the COVID-19 pandemic made policymakers realise the fragility of the creative economy [7]. By integrating traditional skills with innovative designs and marketing strategies, Lampung crafts have managed to capture both local and international markets, thereby expanding economic opportunities and enhancing the welfare of the artisans involved. Moreover, the educational impact of Lampung crafts extends beyond mere skill transmission. Workshops and exhibitions, such as the annual Lampung Craft event, serve as educational platforms, promoting the region's diverse cultural heritage and inspiring a new generation of artisans. This event often features collaborations with national designers, providing valuable mentorship and learning opportunities for local craftsmen. Such initiatives not only preserve the traditional knowledge but also ensure its evolution in the contemporary craft landscape.

In terms of taxation, the flourishing craft sector contributes to the regional economy by broadening the tax base. As the craft industry grows, so does its financial footprint, leading to increased tax revenues which can be reinvested into local communities. This economic cycle supports infrastructure development, social services, and further educational programs, creating a positive feedback loop that benefits the entire province. Additionally, legal frameworks are being developed to protect these traditional crafts, ensuring that the artisans' intellectual property rights are safeguarded and that the crafts continue to be a source of cultural pride and economic prosperity. In essence, Lampung crafts are more than just a testament to the region's artistic heritage; they are a dynamic force driving SME growth, educational enrichment, and

fiscal contribution. The synergy between tradition and modernity, culture and economy, education and enterprise encapsulates the transformative power of Lampung's crafts, making them an invaluable asset to the region's socio-economic landscape.

The SMEs involved in Lampung crafts have shown remarkable resilience, adapting to economic changes and even thriving amidst challenges such as the Covid-19 pandemic, as evidenced by a study that highlights the effectiveness of community economic development approaches in Lampung Province. The craft sector has been instrumental in fostering an entrepreneurial mindset among the youth, thereby enhancing educational outcomes. By integrating traditional craft-making into educational curricula, schools and vocational institutions in Lampung have managed to bridge the gap between theoretical knowledge and practical skills, preparing students for the realities of the job market. This hands-on approach not only preserves traditional knowledge but also instills a sense of pride and ownership in the younger generation, ensuring the continuity of Lampung's cultural heritage. In terms of taxation, the craft industry has contributed to the regional revenue through the formalization of SMEs, which has led to an increase in tax compliance. A study analyzing the understanding of taxes and tax sanctions on taxpayer compliance of SMEs in Lampung indicates that better tax understanding correlates with higher compliance rates. This compliance is crucial for the local government, as it provides the necessary funds to reinvest in community development, infrastructure, and public services, creating a virtuous cycle that benefits the entire province.

The synergy between Lampung crafts and SMEs extends beyond financial gains; it is a catalyst for community empowerment, innovation, and cultural preservation. As these enterprises flourish, they not only elevate the standard of living for the artisans but also contribute to the social and economic fabric of Lampung, making the craft industry an indispensable part of the region's identity and prosperity.

Taxation impact on creative small and micro enterprises cannot be overstated. These enterprises, often operating at the margins of formal economic structures, contribute significantly to cultural diversity and economic vibrancy. However, they face unique challenges in tax compliance, which can be mitigated through innovative approaches such as taxation poster exhibitions. These exhibitions serve not only as educational platforms but also as a means to foster a culture of compliance and awareness.

The concept of a taxation poster exhibition is rooted in the idea that visual communication can be a powerful tool for conveying complex information. By utilizing compelling graphics and accessible language, tax authorities can demystify tax regulations and obligations for creative entrepreneurs. This approach aligns with findings that suggest visual aids can enhance understanding and retention of information, thereby improving compliance rates. Tax compliance is essential for the sustainability of small and micro enterprises. It ensures that they contribute their fair share to the public coffers while availing themselves of government services and protections. However, compliance can be burdensome due to the intricate nature of tax laws and the limited resources available to these enterprises. Simplified tax regimes, as suggested by various studies, can encourage voluntary compliance and ease the administrative load on these businesses. In designing tax systems for small and micro enterprises, policymakers must consider the balance between ensuring revenue collection and fostering a conducive environment for business growth. A taxation poster exhibition could be part of a broader strategy to educate and encourage compliance. It could highlight the benefits of formalization, such as access to credit and government support programs, which are often contingent upon tax compliance.

Tax education and awareness are crucial components of compliance. Research indicates that a lack of tax education, high tax rates, and low income levels are significant barriers to compliance among micro and small enterprises. Taxation poster exhibitions could address these issues by providing clear, concise information on tax obligations and the consequences of non-compliance.

4 Conclusion

A community service of essential taxation designed to empower SMEs' compliance is a multifaceted endeavor. It requires the concerted efforts of various stakeholders to create an environment where tax compliance is not seen as a burden but as a vital component of business success. Addressing the issue of tax non-compliance among SMEs requires a comprehensive approach that considers the myriad of factors at play. Simplifying tax codes, ensuring fair and equitable treatment, enhancing enforcement capabilities, supporting formalization efforts, providing financial education, fostering trust in government institutions, and promoting a culture of compliance are all critical steps in encouraging SMEs to meet their tax obligations.

Taxation poster exhibition represents an innovative approach to enhancing tax compliance among creative small and micro enterprises. By leveraging the power of visual communication, these exhibitions can educate, inform, and motivate entrepreneurs to fulfill their tax obligations. As part of a comprehensive tax education strategy, they can help build a more robust and equitable tax system that supports the growth and sustainability of these vital contributors to the economy. The success of such initiatives, however, hinges on their ability to resonate with the target audience and effectively communicate the value of compliance in a language that creative entrepreneurs can understand and appreciate.

Through education, technological support, and collaborative governance, we can build a robust framework that not only supports SMEs in fulfilling their tax obligations but also contributes to the broader goal of economic growth and development. Tax compliance represents a significant challenge for Small and Medium-sized Enterprises (SMEs), which are essential to the economy. These entities often face unique difficulties in navigating the complex web of tax regulations, which can be a substantial burden due to their limited resources. The importance of tax compliance for SMEs cannot be overstated, as it ensures the legal and financial integrity of a business, contributing to the overall health of the economy.

Tax regulation must strike a balance between ensuring fair revenue collection and supporting the growth of SMEs. Policymakers should engage with representatives from the SME sector to understand their challenges and tailor tax policies that can foster a supportive business environment. Through such collaborative efforts, taxation can serve as a tool for economic development rather than a barrier to success for small and medium enterprises.

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