

# Optimization Model for Tax Reception from SMEs

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The aim of this study was to determine the effect of the income of SMEs, the number of SMEs and employment of SMEs, SME capital against Tax Revenues Local Revenue and determine the model of Revenue Optimization to improve the original income of Small and Medium Enterprises sector in East Java. Model analysis used in this research is multiple linear regression. Model analysis of this study have been designed to investigate the influence of independent variables on the dependent variable. The above has explained that this is necessary in research analysis technique that uses a linear regression model and hypothesis testing using t test and f test. Based on the analysis, it can be concluded as follows: After a statistical t test to determine the effect simultaneously between the independent variables Income SMEs , The number of SMEs, Employment of SMEs and SME Capital simultaneous and real influence on the Improvement of regional revenue.

**Key words:** *Income SMEs, the number of SMEs, Employment of SMEs, SME Capital and Local Revenue Enhancement.*

## Introduction

Most large companies have their roots in small and medium enterprises suggesting that the future large corporations are the SMEs of today that that must be nurtured to ensure their growth. Thus, SMEs are generally perceived to be the seedbed for indigenous entrepreneurship and generate all the many small investments, which would otherwise not have taken place (Aryeetey & Ahene, 2014).

Therefore, developing economies needs to further the development of its private sector by creating an environment favorable to the growth of SMEs, strengthening the factors that lead to business success, and addressing the problems threatening the existence and advancement

of small and medium enterprises (Chu, Kara & Benzing, 2008), so they can adequately play the role expected of them in economic transformation. Such role includes mobilization of domestic savings for investment, appreciable contribution to gross domestic product, increased harnessing of local raw materials, employment generation, and significant contribution of poverty reduction efforts through sustainable livelihoods and enhancement in personnel income, technological development and export diversification (Smatrakalev, 2016).

Furthermore, they have the advantage of reaching the farthest corners of the country unlike the larger establishments. For this reason, an ideal tax policy needs to be adopted in order to ensure voluntary compliance, economic growth and proper utilization of resources rather than suffocating the entrepreneur initiative they are out to cater for. (Atawodi, 2016 : 87).

It is a well known fact that the revenue generated from the taxation of individuals and businesses is an important stream of income for government. In an economy like ours that is struggling to remain afloat, it is even more important. Tax revenue is the source of funds used for development projects such as provision of infrastructure like good roads, stable power supply, stable water supply etc. All of which combine to create an enabling environment for businesses –and in turn the economy at large- to grow. (Atawodi, 2016 : 87).

Small and Medium Enterprises being profit generating establishments are also expected to pay their dues. The important question however is “how much tax should they be levied”. Small and medium enterprises are volatile establishments that need special treatment. Putting their nature into consideration, every little resource at their disposal can make a world of difference. For this reason, a number of Nigerian SMEs choose to remain in the informal sector because they feel the cost of compliance is too high. And a considerable number of those who pay only do so because they are coerced by the authorities. (Atawodi, 2016 : 87)

SMEs are thought to be engine room of innovation this is because entrepreneurial activities such as innovation, risk bearing, employment creation, finding new opportunities and the commercialization of their inventions have been contributed to the prosperity in all regions of the world therefore, any country wishing to remain innovative will support SME growth because they also enhance competition and entrepreneurship and hence have external benefits on economy-wide efficiency, and aggregate productivity growth. Furthermore, SME proponents frequently claim that SMEs are more productive than large firms but financial market and other institutional failures impede SME development. Thus, pending financial and institutional improvements, direct government financial support to SMEs can boost economic growth and development (Avolio, 2015).

Honlglang & Jiaozben agree with the fact that SMEs foster economic growth through innovation by stating that during the economic globalization period and under fierce competition conditions, the research and development activities of small and medium-sized

enterprises play an irreplaceable role in promoting technology innovation and national economic development because of their adaptive ability in market, flexible operation mechanism as well as innovation spirit. As a result of this, they can adapt to new situations more easily than large corporations. Innovation is also critical for getting new ideas into the economy (Hendy, 2015). Small and Medium Enterprises serve as links between the large business enterprise and the consumers as such, large enterprises can hardly survive without them. Therefore, the importance of small business enterprises cannot be over emphasized. Small business enterprises make a larger contribution pro rata in the economy and with efficient control and management techniques of SMEs the benefit it gives can be much greater.

Indicators used to measure the implementation of community development programs Small and Medium Enterprises (SMEs) which include: Decreasing the number of poor people. This means that the increase of jobs and the number of workers absorbed in the sector of Small and Medium Enterprises (SMEs) so that the welfare of the population increases. Expanding efforts to increase public revenue carried Small and Medium Enterprises through the establishment of new businesses by utilizing the resources available, meaning no increase in the number of businesses, especially small and medium enterprises created by the empowerment of the target population. Increased revenue is closely related to the level of profits or profits derived by the Small and Medium Enterprises society. The increasing independence of the group are characterized by the growing business and productive members of the group, the group's capital strength, the more neat system administration group, as well as the growing extent of social interaction with other groups increasing the capacity of communities and equal distribution of income that is characterized by an increase in income of poor families are able to meet the needs of essentially basic and social needs.

The SME sector's contribution to reach 57% of GDP in East Java Rp. 884 Trillion. The contribution of cooperatives and SMEs in East Java's economy is very large, reaching over IDR 600 trillion. All parties must secure a considerable contribution is to the economy of East Java, while the allocation of funds disbursed East Java Provincial Government for the empowerment of cooperatives and SMEs also do not lose large at around Rp.1,3 trillion.

The Government has conducted a thorough tax reform to increase tax revenues in the year 1983. Since the issuance of the Act 6 of 1983 as last amended by Law No.28 of 2017, becoming known the term self assessment system. Self-assessment system is a system of taxation which gives authority to the taxpayer to define, calculate, depositing, and self-reported the amount of tax payable. With the enactment of the self-assessment system, the level of tax revenue depends on the honesty, awareness, and understanding adequate, so expect WP to have compliance in implementing tax obligations properly. Thus, the voting system is based on the compliance of the taxpayer itself to meet their tax obligations. The

government has recently set a new government regulations regarding income tax policy for SMEs. The tax provision in question is the Government Regulation No. 46 Year 2013 on Income Tax on Income from Business Received by or obtained Taxpayers Who Have Specific Gross Circulation. This rule was published on June 12, 2013 and valid on 1 July 2013. This regulation establishes the Income Tax amounting to 1% turnover for the business turnover of less than Rp 4.8 billion per year. With this regulation, means that SMEs require employers to pay taxes and requires them to register themselves.

According to Marti (2010) tax compliance is a complex term to define. Simply put, tax compliance refers to fulfilling all tax obligations as specified by the law freely and completely. It has been found that regulatory burdens fall disproportionately on small and medium enterprises internationally (Pope & Abdul-Jabbar, 2008). Their size and nature makes the issue of tax compliance one of particular importance especially since most SMEs have access to limited resources and inadequate expertise to comply with diverse and complicated regulation. He also believes that high compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness.

Tax non-compliance may be in one of many forms; it could either be failure to submit a tax return within the stipulated period or non submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by due date. (Kasipillai & Abdul Jabbar, 2016) and in some cases non-compliance may mean an outright failure to pay levied taxes.

Studies have shown that the problem of tax evasion is a widespread one (Kasipillai & Abdul Jabbar, 2016). Furthermore, Fagbemi, Uadile & Noah (2010) found that it is prevalent in developing countries and it hinders development thereby leading to economic stagnation and other socio-economic problems.

## **Research Theory**

### ***Theories of SME's***

The abbreviation SME stands for Small to Medium Enterprise. Almost every company we know of today began as an SME. SMEs globally have a very significant contribution to the provision of goods and services to the society. Without SMEs, big companies may not be able to meet the demand for goods and services in an expanding customer base. Currently there is no accepted worldwide definition of SMEs (Hooi, 2016). An analysis of the definition of an SME shows that it depends on who is defining it and from where they are defining it. The same person will define an SME differently depending on where they are SMEs are defined by number of workers employed, capital employed and sales turnover.

SMEs are thus classified by the number of employees and/or by the value of their assets. The classification of SMEs by size is relevant to sector. A firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions may be considered large in another sector with fewer players and/or generally smaller firms within it. It may be appropriate to define size by the number of employees in some sectors but more appropriate to use turnover in others. Across governments, it is most usual to measure size according to numbers of full-time employees or their equivalent.

### ***Theories of Tax***

Various opinions exist about the best ways to improve tax compliance. Given the chance, a lot of businesses will not pay taxes unless there is a motivation to do so. Some believe that the best way is to increase incentives (Feld & Frey, 2017) others believe the best way is to increase penalties. Tax compliance theories can be broadly classified into two. They are; economics based theories and psychology based theories.

#### ***Economic Based Theories***

They are also known as deterrence theory and they place emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers - they are influenced by economic motives such as profit maximization and probability of detection. As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative that maxim their expected after tax returns after adjusting for risk. Therefore according to the theory, in order to improve compliance, audits and penalties for non-compliance should be increased.

#### ***Psychology Theories***

Psychology theories on the other hand posit that taxpayers are influenced to comply with their tax obligations by psychological factors. They focus on the taxpayers' morals and ethics. The theories suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing individual attitudes towards tax systems

#### ***Tax Policy and the Growth of SMEs***

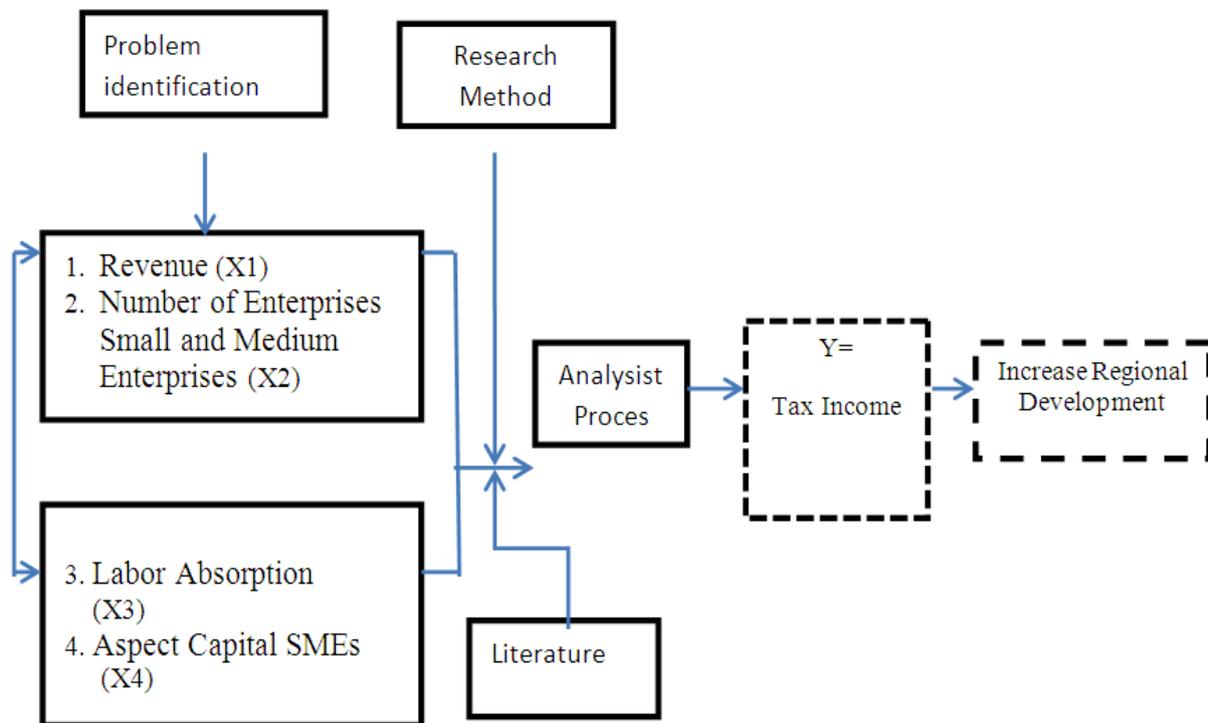
According to Tomlin (2008), economists argue that the resources smaller companies direct towards tax compliance are resources that could otherwise be used for reinvestment,

facilitating future growth. Hence, there is a belief that taxes and a complex tax system put disproportionate pressure on smaller businesses. Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008). Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost. As stated earlier they are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations. Public corporations, for example, commonly have stronger accounting requirements than do sole proprietorships, and enterprises with employees may be subject to the full panoply of requirements associated with withholding labor Income taxes and social contributions (International Tax Dialogue 2017).

An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all and this results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2015). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses (Weichenrieder, 2017). Among the factors militating against SME tax compliance with are: high tax rates, Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2015). Others according to Yaobin, (2017) are double taxation, no professional tax consultancy, weak tax planning, high taxation cost.

Based on empirical research-research that has been there, then made a proposition model that describes the relationship between variable factors:

**Figure 1.** Conceptual Framework research



## Methodhology

In each district will randomly drawn from a population of 25 SMEs of the SME area. With provisions, each district its respondents micro, small and medium enterprises. With the following conditions: in the district of Madiun number of its SME population of 22 790 SME units in 2019 as well as in Pacitan SMEs amounted to 3,256 units, while in Sampang 2,000 units in Pamekasan existing SMEs and SMEs unit 499, but this data was already developed and in particular Regional Sampang and Pamekasan data is data collection cooperatives, so as to obtain more representative results and represent, the research took as many as 100 respondents (samples), which is in accordance with the sample size is ideal for the Factor Analysis between 50 to 100 samples.

The analysis model used in this research is multiple linear regression. Model analysis of this study have been designed to investigate the influence of independent variables on the dependent variable. The above has explained that this is necessary in research analysis technique that uses a linear regression model and hypothesis testing using t test and f test

## Results

### *Madiun District*

#### 1) Results F Test and T Test

F Test was used to test whether or not fit regression models were generated and t test was used to test the effect of each independent variable on the dependent variable. The results of the F test and t test were as follows:

**Table 1:** Results of F Test

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.155E18	4	2.887E17	8.077	.034 <sup>a</sup>
	Residual	1.430E17	4	3.575E16		
	Total	1.298E18	8			

a. Predictors: (Constant), Capital SME, SME Revenue, Labor SMEs, the number of SMEs

b. Dependent Variable: Tax Revenue

Based on results test with the F test, showing that the value of significance (Sig) = 0.034 less than 0.05 it can be concluded if the variable income of SMEs, the number of SMEs and employment of SMEs, SME capital effect on Tax Revenue Local Revenue.

**Table 2:** Results of T test

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.624E9	1.516E9		369	.012
	SMEs Income	67.138	17.684	2.896	3.796	.019
	Number of SMEs	7443192.673	2422017.186	2.450	3.073	.037
	SMEs Labor	20749.887	5843.972	.752	3.551	.024
	SMEs Capital	6.823	1.958	.255	3.485	.032

a. Dependent Variable: Tax Revenue

T test results in the above table shows that:

1. SME Revenue Tax Revenue affect the increase regional revenue, with the level of [Sig. 0.019 < 0.05: significant].
2. The number of SMEs affect the improvement of Revenue PAD, with the level of [Sig. 0.037 < 0.05: significantly].
3. Manpower SMEs affect the improvement of Revenue PAD, with the level of [Sig. 0.024 < 0.05: significant].

4. SME Capital Receipts Tax effect on improvement of regional revenue, with the level of [Sig. 0.032 <0.05: significant].

### *Pacitan District*

#### 1) Results Test F Test and t test

F Test was used to test whether or not fit regression models were generated and t test was used to t test the effect of each independent variable on the dependent variable. The results of the F test and t test were as follows:

**Table 3: F Test Results**

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.275E13	4	5.687E12	28.887	.003 <sup>a</sup>
	Residual	7.874E11	4	1.969E11		
	Total	2.353E13	8			

a. Predictors: (Constant), Capital SME, SME Revenue, Labor SMEs, the number of SMEs

b. Dependent Variable: Tax Revenue

Based on results test with the F test, showing that the value of significance (Sig) = 0.000 less than 0.05 it can be concluded if the variable Revenue SMEs, number of SMEs, Employment of SMEs and SME Capital affect the Income Tax Receipts PAD.

**Table 4: Results of T test**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2101195.218	1854332.858		1.133	.320
	SMEs Income	.004	.001	.528	.098	.015
	Number of SMEs	288.076	118.055	.401	3.287	.022
	SMEs Labor	363.980	38.627	.947	9.423	.001
	SMEs Capital	.003	.001	.294	3.464	.021

a. Dependent Variable: Tax Revenue

T test results in the above table shows that:

1. Income Tax Receipts SMEs effect on regional revenue, with the level of [Sig. 0.015 <0.05: significant].
2. The number of SMEs effect on Tax Revenue regional revenue, with the level of [Sig. 0.022 <0.05: significantly].

3. Manpower SMEs Receipts Tax effect on regional revenue, with the level of [Sig. 0.001 <0.05: significant].
4. SME Capital Receipts Tax effect on regional revenue, with the level of [Sig. 0.021 <0.05: significant].

### ***Pamekasan District***

#### **1) Results F Test and t test**

F Test was used to test whether or not fit regression models were generated and t test was used to t test the effect of each independent variable on the dependent variable. The results of the F test and t test were as follows:

**Table 5:** F Test Results

<b>ANOVA<sup>b</sup></b>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.046E15	4	2.614E14	17.327	.009 <sup>a</sup>
	Residual	6.035E13	4	1.509E13		
	Total	1.106E15	8			

a. Predictors: (Constant), Capital SME, SME Revenue, Labor SMEs, the number of SMEs

b. Dependent Variable: Tax Revenue

Based on results test with the F test, showing that the value of significance (Sig) = 0.009 less than 0.05 it can be concluded if the variable Revenue SMEs, number of SMEs, Employment of SMEs and SME Capital affect the Income Tax Receipts PAD.

**Table 6:** Results of T test

<b>Coefficients<sup>a</sup></b>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.807E7	1.060E8		.925	.407
	SMEs Income	12.869	2.969	.204	334	.032
	Number of SMEs	12535.061	10798.610	.774	1.161	.310
	SMEs Labor	473.022	1196.754	.218	.395	.713
	SMEs Capital	68.979	19.100	1.679	3.612	.023

a. Dependent Variable: Tax Revenue

T test results in the above table shows that:

1. Income Tax Receipts SMEs effect on regional revenue, with the level of [Sig. 0.032 <0.05: significant].

2. The number of SMEs have no effect on Tax Revenue regional revenue, with the level of [Sig. 0.310 > 0.05: no significant].
3. Labor SMEs do not affect the Regional Income Tax Receipts, with the level of [Sig. 0.713 > 0.05: no significant].
4. SME Capital Receipts Tax effect on regional revenue, with the level of [Sig. 0.023 < 0.05: significant].

### *Sampang District*

#### 1) Results T Test and F test

F test was used to test whether or not fit regression models were generated and t test was used to test the effect of each independent variable on the dependent variable. The results of the F test and t test were as follows:

**Table 7:** F Test Results

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.003E13	4	7.507E12	11.000	.020 <sup>a</sup>
	Residual	2.730E12	4	6.824E11		
	Total	3.276E13	8			

a. Predictors: (Constant), Capital SME, SME Revenue, Labor SMEs, the number of SMEs

b. Dependent Variable: Tax Revenue

Based on results test with the F test, showing that the value of significance (Sig) = 0.020 less than 0.05 it can be concluded if the variable Revenue SMEs, number of SMEs, Employment of SMEs and SME Capital affect the Income Tax Receipts PAD.

**Table 8:** Results of T test

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9980740.018	3409203.312		2.928	.043
	SMEs Income	.106	.018	.906	5.946	.004
	Number of SMEs	139.775	145.507	.165	.961	.391
	SMEs Labor	49.828	72.118	.110	.691	.528
	SMEs Capital	.008	.015	.086	.560	.606

a. Dependent Variable: Tax Revenue

T test results in the above table shows that:

1. Income Tax Receipts SMEs effect on regional revenue, with the level of [Sig. 0.004 < 0.05: significant].
2. The number of SMEs have no effect on Tax Revenue regional revenue, with the level of [Sig. 0.391 > 0.05: no significant].
3. Labor SMEs do not affect the Regional Income Tax Receipts, with the level of [Sig. 0.528 > 0.05: no significant].
4. Capital Receipts SMEs do not affect the original income tax, with a rate of [Sig. 0,606 > 0,05 : no significant].

Revenue in Pacitan, Sampang, Pamekasan experienced a rising trend. SME sector does need to get more attention from the tax authorities. The amount of the contribution of SMEs to the ratio of the area compared to its tax revenue reflects how much potential taxes that can be extracted. But behind the great potential of the Small and Medium Enterprises (SMEs) have some characteristics that are difficult, such as market uncertainty, uncertainty as to whether the first few years the company can survive or not.

Capital is a major factor are required to develop a business unit. SMEs lack of capital, and therefore are generally small and medium enterprises constitute individual businesses or companies that are covered, which rely on capital from the owner of the number is very limited, while the loan capital from banks or other financial institutions are difficult to obtain due to administrative and technical requirements of the requested by the bank can not be met. The requirement that the greatest obstacle to SMEs is the provision of the collateral because not all SMEs have adequate and sufficient assets to be used as collateral. In this regard, SMEs also encounter difficulties in access to financing sources. During this time they are quite familiar with the mechanism of financing provided by the bank where the required collateral. Access to other financing such investments, most of them do not have access to it. From the investment side alone, there are still some things that need to be considered if it is investing gate would be opened for SMEs, among other policies, term, tax, regulatory, treatment, rights to land, infrastructure and business climate. Necessary expansion loan scheme with mild interest, including special schemes with the terms that are not burdensome for businesses. Government efforts through the provision of KUR program (micro credit) for working capital for the business is one of the strategic programs and activities that need to be developed for the reinforcement of capital for SMEs. In addition, SMEs remain consistently utilize the services of microfinance institutions (MFIs) that exist, as well as other non-bank institutions.

### **Model Tax Revenue Optimizationfor SME**

Strategiessector local revenue optimization of local taxes mean all efforts made by local governments to raise revenue obtained from the local legal sector and local taxes levied by the Regional Regulation in accordance with the laws and regulations in force.

With the proliferation of SMEs that have been established by the government together with the big employers, then as the next step is the benefit of SMEs should sebahagian also for the government through taxes in order to build facilities and infrastructure for SMEs itself. After going through various kinds of studies the government finally issued regulations aimed specifically at SMEs that tax through Government Regulation (PP) No. 46 Year 2013. In the regulation of which it is said that the SMEs who earn 4.8 billion in one year will be taxed 1 %. While SMEs are categorized as at PP 46 in 2013, not too much, therefore it is expected to have the active participation of the Office of Services for socialization, so that the model will appear as shown, as mentioned above, with the following details.

1. Government issued a regulation in the form of Regulation no. 46 Year 2013
2. Duties KP2KP (Office of Counseling and Consultation Services Tax) should not only in offices, but should pick up the ball through early detection of the data-2 that is in the Office of Industry and Commerce issued a Business License (Business License of Trade).
3. The existing data SMEs actually there is a desire to pay taxes, but due to lack of manpower or time to take care of the new tax system, so reluctant to take care of it and if there is an opportunity for its production could be exported generally only give the intermediaries or exporters that risk and affairs are not too complicated.
4. Therefore, there should be a tax officers who served as a counselor at entrepreneurs who have succeeded so intrigued the employers to have the knowledge of how to pay the tax it more easily, and it is important that employers could be further increased his advantage with the courage to export its products abroad.
5. Payment of tax of 1% of its sales turnover, is where the MSMEs difficulties in its calculations, this is because the rules issued regulations do not clearly and thoroughly, as well as the calculation of the final income tax, turnover in the subsidiary company is also calculated accumulation or own-2 , how to deposit and also reporting the less understood by SMEs
6. Payment of taxes can proceed directly to the bank or the tax office to get to the village with job, tax officials in the afternoon or evening in some villages to accept and teach how calculations for free. Can then be taken to the bank or the tax office finally diterma state for rebuilding costs for society.

In the context of local revenue optimization strategies regional tax sector, can be done in several ways:

***a. Policies in Regulation No. 46/2013 on Tax Rate SME***

Finance Minister Regulation (PMK) No. 197 which came into force in early 2014 increases mandatory limits PKP so Rp 8 billion per year. It is like giving a fresh wind to increasingly

provide convenience for businesses in this sector. This means that for SMEs is only one major tax so the burden in calculating profit components, namely a 1 percent income tax.

Related policies in PP No. 46/2013 and PMK No. 197/2013, not only bring fresh air for SMEs with competitive rates, but also simplicity in the fulfillment of the annual tax reporting obligations. Therefore, the combination of 1 percent income tax and an increase in the limits for so PFM solutions are aligned to support the tax compliance rate of SMEs.

For example, a taxpayer SMEs that have trade above 600 million and below Rp 4.8 billion do not have the burden to 10 percent are subject to VAT because it may choose not to become PKP. Given the generally SMEs difficulties in administration, VAT should be charged to the buyer will be borne by the seller.

By simple logic, it is understood that the same amount of profit tax to be paid will be difficult to obtain the honesty of taxpayers. This can potentially increase the non-compliance of taxpayers from the SME sector because VAT is not functioning as a credit method, but be a part of the cost of goods sold. Thus, the two regulations are not only able to increase tax compliance taxpayer SMEs, but also improve the competitiveness of SMEs, which means supporting the national economy.

Finally, control over tax liabilities of SMEs as well as pro-MSME policies will depress tax compliance costs and encourage compliance taxpayers , Increased tax payment compliance means increased tax revenues and decreased levels of dishonesty taxpayers.

#### ***b. Simplify the Payment Process***

Innovation based on technology being developed to facilitate taxpayer in performing their tax obligations. Directorate General (DG) of Taxation Ministry of Finance launched a payment innovation Income Tax (VAT) which is a new history because it was the first time can pay income tax through Automated Teller machine (ATM). Previously, the public can make payments Land and Building Tax with the ATM. In addition to the payment of Land and Building Tax (PBB), now the payment of Income Tax (VAT) for businesses with turnover under \$ 4.8 billion per year can be done through automated teller machine (ATM). This policy has been established since early November by the Director General of Tax policy can make it easier for businesses small and medium enterprises (SMEs) may pay the tax without the need to go to the tax office. In addition, Fuad said that with this service can create public awareness for the importance of paying taxes. The requirement to make tax payments through ATM's, the enterprises or individuals must have a Taxpayer Identification Number (TIN) and accounts of one of the four banks.

Service tax payment through ATM machine is an implementation of the Government Regulation (PP) No. 46 Year 2013 concerning the payment of income tax of 1% of turnover does not exceed USD 4.8 billion per year that was approved in June 2013 ago.

In the PP described business entities or individuals with gross income or turnover does not exceed USD 4.8 billion per year on transaction which is not free from occupation or profession. Then, the transaction is not accepted or obtained from abroad. Then, the work is not subject to final income tax with the provisions of tax legislation itself.

### ***c. Socialization***

Approach to SMEs will be more 'friendly' when done through public relations activities as compared with the activities of supervision. PR approach would be more acceptable to the SMEs. Through public relations activities of the Directorate General of Taxes may conduct the empowerment of SMEs by facilitating their training activities, help establish access to the market, and if possible access to capital assistance, empowerment activities can be done, for example, with a model target groups of SMEs. Grouping(*clustering*) can be based on the type of product or domicile. With *clustering*, coaching will be more easily done because SMEs are handled relatively the same. Training activities, for example, will be more focused on the things that are generally required by the SMEs. In addition, the development of market access will also be easier. For example, for SMEs operating in the craft sector, they can be made to the *website* to offer their products via the *Internet*. Where on the *website* can be shown pictures of the product and address which can be contacted by potential buyers.

For SMEs, the tax is still seen as a burden, which should be avoided as much as possible. Therefore, empowerment activities are not effective if only done by the Directorate General of Taxation. To reduce the rejection of SMEs, DJP need to involve various elements in society in the activities of this empowerment. For example, with the involvement of other government agencies, community organizations, religious organizations, NGOs, and so on. The involvement of elements of society are more easily accepted by the public will be able to make activities more effectively.

With activities like this empowerment of SMEs, are expected to arise awareness among SMEs, that they were noticed. In the long term, this kind of activity will be to foster the emotional bond that will have a positive impact on tax compliance behavior.

### ***d. Applying Accounting Software Simple***

Inconvenience and ignorance of how to initiate the recording of financial administration may often also be a strong reason actors SMEs as early as possible to keep records of financial administration when just starting their business, in fact by doing a manual recording at the

start of the business enough to help SMEs to begin to curb the administrative records of their finances. Further, when they begin to understand the records they could easily continue to the level of automation of recording financial statements through financial records software are widely available for SMEs.

There are still some things that might still hamper SMEs to conduct financial administrative records as early as possible at the time of starting a business they are, but in the future they are expected to begin the orderly administration so that their business development clearly measurable and can possess valuable to potential investors to obtain funding for the progress of their business.

And business is expected by the time they've grown, they are accountable to the state through a tax liability calculation, depositing the tax payable to the reporting could be informed as early as possible by the time they start a business. So that they become bonafite business performance for investors.

### **Conclusions and Recommendations**

Based on the analysis described, it can be concluded as follows:

- a) After a statistical t Testo determine the effect simultaneously between the independent variables SME revenues, number of SMEs, Employment of SMEs and SME Capital simultaneous and real influence on the Improvement of regional revenue.
- b) Model optimization in order to increase local income tax is the Issuing policy in PP No. 46/2013 on Tax Rate SME, simplify the payment process, carry out socialization to the SMEs, the application of Accounting Software Simple

Based on the above conclusions, then can be delivered suggestion that the Government needs to increase its role in empowering SMEs in addition to developing a mutually beneficial business partnership between large employers to small businesses, and improve the quality of the source Human power. The development of the private sector is a matter that will no doubt need to be done. SMEs have an important role in business development in Indonesia. SMEs also a forerunner of the growth of large enterprises.



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