

# Benefits of Final Income Tax Exemption for certain UMKM

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**Abstract:** *The Government will waive Income Tax (PPh) for Individual Micro, Small, and Medium Enterprises (UMKM) with income below Rp 500 million per year. The income tax is regulated in the Law on Harmonization of Tax Regulations (HPP), which the Government ratified some time ago. Thus, the turnover of UMKM is below IDR 500 million per year, which was initially subject to a final income tax of 0.5 percent to 0 percent. UMKM is a substantial potential taxpayer. The number of UMKM in Indonesia reaches 64.2 million units or 99.9 percent of the business population, contributing to a GDP of 61.7 percent. Based on data from the Directorate General of Taxes, the Ministry of Finance in 2019, the contribution of UMKMs' final PPh was 1.1% of total PPh income in this year. With the facts on the ground above, the policy of releasing Final Income Tax for UMKMs with a specific turnover limit is a good step for business actors. However, with the tax revenue target continuing to rise, on the one hand, this policy will reduce the tax base for the Government.*

**Keywords** – UMKM, UMKM Final Income Tax Exemption, Effect of Final Income Tax Exemption

## BACKGROUND

Taxes are an essential instrument for a country's economy, including Indonesia. Since 1984, the tax system adopted by Indonesia has been self-assessment. The self-assessment system is a tax collection system that trusts taxpayers to carry out their obligations. It starts from calculating paying to report the amount owed based on the applicable tax laws and regulations. Thus, the public as taxpayers is allowed to participate in tax collection.

Tax terminology is contained in Article 23A of the 1945 Constitution, which reads, "taxes and levies that are coercive for state needs are regulated by law." This terminology shows that all regulations issued by the Government must be obeyed by all Indonesian citizens, including Micro, Small, and Medium Enterprises (UMKMs). In Indonesia, UMKMs have an essential role in national economic development. In addition to playing a role in economic growth and employment, UMKMs also play a role in distributing development results.

UMKMs that become taxpayers must comply with the laws and regulations governing taxes. Facts on the ground: many business actors are not aware of paying taxes and avoid it. Business actors are undoubtedly caused by various factors such as high tax rates, not having sufficient knowledge about taxes, and complexity in reporting or calculating taxes. The awareness of taxpayers in fulfilling their tax obligations is essential in tax revenue.

UMKMs substantially contribute to Indonesia's Gross Domestic Product (GDP), reaching 60% or around Rp. 2 trillion. UMKMs can also employ as many as 97 percent of the workforce of a total of 64 million UMKMs in Indonesia. However, the contribution of UMKMs to state revenue from taxes is still minimal compared to these figures. The gift of Final PPh from UMKMs in 2019 only reached 1.1% of the total income from PPh in the current year. The Deputy for Small and Medium Enterprises at the Ministry of Cooperatives and UKM, Harimba Rachman, said that the contribution of UMKMs in the taxation sector needed to be increased, especially considering that the number of registered taxpayers from UMKMs was still small.

As previously mentioned, one of the reasons for the lack of tax contributions from UMKMs is that their ability to do bookkeeping and carry out tax administration is still lacking. This regulation makes it difficult for UMKM business actors to carry out their obligations as taxpayers. Many micro-scale businesses in Indonesia do not understand financial statements and taxation, so the contribution of UMKMs to taxes is still tiny. The low number of UMKMs registered in the DGT system is also one of the causes of the low contribution of UMKMs to taxes. Of the many UMKMs circulating in Indonesia, only a tiny number are registered so that UMKM taxpayers who deposit and report taxes are few.

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The Government has made various efforts to increase the contribution of UMKMs to taxes. The Government has provided an application to facilitate UMKMs in compiling financial reports because bookkeeping financial statements is the basis for tax reporting. However, knowledge about digitalization is also still limited, so the Ministry of Cooperatives and UKM are trying to improve the quality of human resources. The Government has also strengthened the UMKM database and provided training related to digitalization to increase its contribution to tax revenue.

The increase in state tax revenues, on the one hand, occurs if there is awareness of taxpayers on tax regulations. With the phenomena in the field above, the Government is trying to formulate separate rules for UMKM actors to be aware of and obey taxes. In 2013 the Government issued Government Regulation Number 46 of 2013 concerning Income Tax for UMKMs, which is 1% of business circulation. Then in 2018, the Government issued Government Regulation Number 23 of 2018, which revised the previous regulation, namely PP-46/2013. This regulation is good news for UMKM taxpayers because of a decrease in the final PPh rate, set initially at 1% down to 0, 5% gross turnover.

The low number of UMKMs registered in the Tax Administration System, ability in financial reporting, and minimal contribution are some of the problems in the field related to Small, Micro, and Medium Enterprises (UMKMs).

## THEORETICAL BASIS

Based on Law no. 20 of 2008 concerning micro, small and medium enterprises, the definition of UMKM is a business operated by individual business actors, households, or small-scale business entities.

Meanwhile, if you look at the definition of UMKMs spoken by experts, the explanation is as follows (quoted from <https://www.ocbcnisp.com/en/article/2021/04/07/pengertian-umkm>):

### 1. M. Kwartono

Based on what M. Kwartono said, the definition of UMKM is a people's economic activity with a maximum net worth of Rp. 200 million, where land and buildings for business are not included in the count.

From another point of view, the definition of UMKM is a business with a maximum annual sales turnover of Rp. 1 billion and is owned by Indonesian citizens or Indonesian citizens.

### 2. Ina Primiana

Based on what Ina Primiana explained, the notion of UMKMs is the development of four main categories of economic activities that are becoming the driving force for Indonesia's development process. The driving motors include:

- Manufacturing industry
- Marine business
- Human Resources
- Agribusiness

In addition, Ina also explained that the notion of UMKMs can be interpreted as a mainstay area development to accelerate economic recovery. This effort also accommodates priority and development programs for various sectors in Indonesia. At the same time, small business is to increase multiple efforts that empower the community.

### 3. Rudjito

Based on what Rudjito said, the definition of UMKM is a business that has a significant role in the economic system of the Indonesian state. Both in terms of job creation and the number of businesses.

So, from the definition of UMKMs above, in general, the definition of UMKMs is a business that is divided into three categories, namely micro, small, and medium, carried out by individuals or a business entity, saves certain assets and turnover, and plays an essential role in the development of the Indonesian economy.

Functions of UMKM:

After understanding the meaning of UMKM, you also need to understand its function. There are five functions of UMKMs, which are as follows:

### 1. Meet the various needs of the community appropriately

Because it is close to the community and run by the Indonesian people, each business can meet its various needs and demands. The raw materials used by business actors generally also come from the surrounding community. Thus, the business system is very friendly to the community's needs.

### 2. Creating more prosperous and equitable economic conditions

With the economic cycle that continues to develop among the people, this business can also create a more prosperous and equitable financial system.

### 3. Open up new opportunities and job opportunities

Even though they are micro, small, or medium in scale, businesses in Indonesian society can absorb prospective workers who need work. This business can open up new opportunities and job opportunities.

### 4. Increase Indonesia's foreign exchange

Foreign exchange is state income and one of the significant factors in the economic system. Indonesia is no exception. If the foreign exchange value is high, the country has a healthy financial system and prospers its people.

One of these business functions is to increase the foreign exchange/income of the Indonesian state. For example, UMKMs are integrated and have a sound system capable of producing high-quality goods and selling them to foreign customers. These export activities can provide foreign exchange for the country.

### 5. Supporting the Indonesian economy when the situation is critical

In 1997, when the monetary crisis occurred in this country, these micro, small and medium enterprises became heroes because they continued to develop and improve the condition of the Indonesian economy. Thus, it can be that these efforts are also able to support the Indonesian economy during a crisis.

#### UMKM Criteria

UMKM criteria are generally divided based on the number of working human resources, assets, and annual turnover. The explanation is as follows:

#### 1. Micro

- a. HR: less than four people
- b. Assets: up to IDR 50 million
- c. Turnover per year: up to IDR 300 million per year

#### 2. Small

- a. HR: between 5 to 19 people
- b. Assets: between IDR 50 million to IDR 500 million
- c. Annual turnover: between IDR 300 million to IDR 2.5 billion

#### 3. Medium

- a. HR: between 20 to 99 people
- b. Assets: between IDR 500 million to IDR 10 billion
- c. Annual turnover: between IDR 2.5 billion to IDR 50 billion

The characteristics of UMKM:

Some general characteristics of UMKMs are as follows:

1. The business has a place of operation that can be moved if needed.
2. The type of product or commodity that is not always fixed. What is sold to customers can change at any time.
3. The business does not yet have complete administration. Financial management is often mixed with personal finance.
4. Most of these businesses do not hold business licenses and other legalities such as NPWP.
5. Business actors generally do not have access to banking. However, some businesses already have access to non-banking financial institutions.
6. Human resources in these businesses are generally not honed and mature.

## WRITING METHOD

The writer collected data and information by conducting a library search, searching for relevant sources, and searching for data via the internet. The data and information used are electronic media data, tax rules, and previous research. The data collection techniques carried out are:

1. Searching for tax regulations related to Final PPh (PP-46/2013 and PP-23/2018)
2. Conducting reference searches in the form of articles in electronic media regarding the impact of the exemption of Final PPh for UMKMs with an inevitable turnover
3. Conduct reference searches in the form of articles in other electronic media that support discussion and analysis

## DISCUSSION AND DISCUSSION

The Government has taken steps to waive income tax (PPh) for individual micro, small and medium enterprises (UMKM) with incomes below IDR 500 million. This regulation is regulated in the Law on the Harmonization of Tax Regulations (HPP) on October 7, 2021. The Government took this tax stimulus to help UMKMs, especially in dealing with the COVID-19 pandemic. However, according to several UMKM business actors, the trigger needed is the realization of Cash Assistance. According to several business actors, more is required promotional support and support for production equipment for UMKM actors. However, the Government's policy was not in vain. Considering that UMKMs with a yearly turnover of under 500 million is in a learning and challenging phase. UMKMs at this level need significant capital so that their business can still exist. By not being burdened with taxes, it is hoped that UMKMs at this level can grow even more significantly and overcome the pandemic problem. According to the author, this tax policy is beneficial for UMKMs with a turnover below 500 million because:

1. On average, UMKMs with a turnover below 500 million rupiahs have not been able to do good and correct records or bookkeeping
2. This level of UMKMs requires significant capital to exist
3. With tax exemption, there is no additional burden from the state
4. With additional capital and fresh money, it is hoped that this level of UMKMs can grow even bigger

Through the tax exemption policy for certain UMKMs, it is hoped that many UMKMs can upgrade to a turnover level above 500 million a year to become more mature and more prepared to provide bookkeeping or recording reports so that they can contribute to the state. But on the one hand, the Government must have a supervisory mechanism for UMKM business actors so that UMKMs do not misuse the policy. They should not be allowed to take advantage of facilities such as breaking down their business turnover and other practices that can cause the tax database to be eroded.

## CONCLUSION

The tax exemption policy for UMKMs with a turnover below 500 million is very beneficial for business actors considering that at the UMKM level, they require additional capital to increase their business. Through this policy, it is hoped that UMKM business actors will be more mature and more prepared to provide bookkeeping or recording reports to contribute to the country in the future.

However, on the one hand, the Government must have a supervisory mechanism for UMKM business actors so that UMKMs do not misuse the policy. They should not be allowed to take advantage of facilities such as breaking down their business turnover and other practices that can cause the taxation database to be eroded.

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