



## **Socialization and Training on Income Tax Article 21 Based on the Average Effective Rate (TER) for MSMEs in Watesprojo Village**

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### **Abstract**

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the national economy; however, tax compliance, particularly related to Income Tax Article 21, remains relatively low. The main challenges faced by MSME actors include limited tax literacy, complexity in tax calculations, and insufficient understanding of recent regulatory changes. To address these issues, the government introduced the Average Effective Rate (TER) scheme as an administrative simplification for calculating Income Tax Article 21. Nevertheless, the implementation of this scheme has not been fully understood by MSMEs at the village level. This study aims to conduct socialization and training on Income Tax Article 21 based on the TER scheme for MSMEs in Watesprojo Village and to evaluate its effectiveness in improving tax understanding and technical capability. The research method involved initial observation, regulatory socialization, practical tax calculation training, and participant evaluation. The results indicate a noticeable improvement in MSME actors' understanding of the legal basis of Income Tax Article 21, the changes in the calculation scheme, and the practical application of the TER mechanism without disrupting business activities. Overall, the socialization and training activities proved effective in enhancing tax literacy and supporting sustainable tax compliance among MSMEs.

**Keyword:** Income Tax Article 21, Average Effective Rate, MSMEs, Tax Socialization, Tax Compliance

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### **INTRODUCTION**

Micro, Small, and Medium Enterprises (MSMEs) represent one of the main pillars of the national economy due to their significant contribution to Gross Domestic Product and employment absorption. Nevertheless, the substantial economic role of MSMEs has not been fully accompanied by an optimal level of tax compliance, particularly in fulfilling obligations related to Income Tax Article 21. A common issue faced by MSME actors lies in the low level of tax literacy, the complexity of tax calculations, and limited understanding of continuously evolving tax regulations. This condition is also evident among MSMEs in Watesprojo Village, where many business owners and financial administrators still experience difficulties in properly calculating, withholding, and reporting Income Tax Article 21.

In response to these challenges, the government has introduced administrative simplification through the implementation of the Average Effective Rate (TER) scheme in the calculation of Income Tax Article 21. This scheme is intended to facilitate monthly or daily tax calculations without altering the amount of annual income tax payable. Despite its intended benefits, the policy has not been fully understood or optimally implemented by MSME actors, particularly in rural areas. The lack of comprehensive socialization and practical, technical training has limited the effectiveness of this policy in improving tax compliance among small business operators.

Previous studies have demonstrated that tax socialization and training play a crucial role in enhancing taxpayers' understanding and compliance. Several studies indicate that community-based tax education programs significantly improve tax awareness among small business actors. Other research highlights that technical training related to Income Tax Article 21 calculations enhances the accuracy of tax withholding and reporting by MSMEs. Moreover, hands-on and application-oriented training approaches have been shown to be more effective than one-way socialization methods. Recent studies further emphasize the importance of continuous assistance to ensure that improvements in tax literacy lead to sustainable, long-term compliance.

However, most existing studies tend to focus on general tax compliance or on Income Tax Article 21 calculation schemes prior to the implementation of the TER system. Research that specifically examines the socialization and training of Income Tax Article 21 based on the Average Effective Rate within the context of village-level MSMEs remains limited. In addition, few studies integrate conceptual tax socialization with practical calculation training tailored to local community characteristics and needs. This condition indicates the presence of a clear research gap and underscores the relevance of conducting the present study.

Based on this background, this study aims to implement socialization and training on Income Tax Article 21 based on the Average Effective Rate (TER) for MSMEs in Watesprojo Village. Specifically, the study seeks to enhance MSME actors' understanding of the latest Income Tax Article 21 regulations, improve their technical skills in tax calculation and reporting, and encourage sustainable tax compliance. It is expected that the results of this study will not

only provide practical benefits for the community in Watesprojo Village but also serve as a reference for developing effective tax socialization and training models for MSMEs in other regions.

## METHOD

This study employed a systematic and sequential approach to ensure that the implementation of socialization and training on Income Tax Article 21 based on the Average Effective Rate (TER) produced results aligned with the research objectives. The research process began with a preliminary observation and needs assessment conducted in Watesprojo Village. This initial stage aimed to identify the level of tax literacy among MSME actors, existing practices related to Income Tax Article 21, and the main challenges faced in tax calculation, withholding, and reporting. Data were collected through direct field observations, informal interviews, and discussions with MSME owners and village stakeholders to obtain a comprehensive understanding of the problems addressed in this study.

Following the preliminary assessment, the research proceeded to the preparation stage, which involved designing the research framework and developing the implementation plan. Training materials and presentation modules were prepared with a focus on the calculation of Income Tax Article 21 using the Average Effective Rate (TER) scheme. Practical case examples relevant to MSME operations were also developed to facilitate contextual learning. In addition, evaluation instruments were prepared to assess participants' understanding and technical skills related to tax calculation and reporting, allowing the effectiveness of the applied method to be examined.

The implementation stage consisted of integrated socialization and training activities. Socialization activities were conducted to provide participants with an overview of tax obligations, recent regulatory developments related to Income Tax Article 21, and the conceptual basis of the TER scheme. These activities were delivered through interactive lectures and discussion sessions to encourage active participation. Subsequently, technical training was carried out using a hands-on approach, guiding participants step by step through the processes of calculating, withholding, and reporting Income Tax Article 21 based on the TER scheme. This approach enabled participants to directly apply the concepts learned to practical situations relevant to their business activities.

The final stage of the research focused on evaluating and testing the effectiveness of the applied method. Evaluation was conducted by comparing participants' levels of understanding before and after the training activities, supported by qualitative feedback obtained through reflection and discussion sessions. This evaluation aimed to determine whether the socialization and training approach successfully enhanced tax literacy and technical competence among MSME actors in Watesprojo Village. The results of this evaluation were used to assess the achievement of research objectives and to formulate recommendations for the improvement and replication of similar tax education programs in other MSME contexts.

## RESULTS AND DISCUSSION

The implementation of socialization and training on Income Tax Article 21 based on the Average Effective Rate (TER) in Watesprojo Village generated a range of empirical findings that reflect both the effectiveness and the limitations of the applied approach. This section presents the results obtained from the field activities and discusses them in relation to the research objectives and the existing context of MSME tax compliance. The discussion focuses on changes in participants' understanding, technical capabilities, and attitudes toward tax obligations, while also examining practical challenges encountered during implementation. By integrating empirical observations with analytical interpretation, this section provides a comprehensive explanation of how the applied method contributed to addressing the identified problems.

### Legal Basis for the Calculation of Income Tax Article 21

The calculation of Income Tax Article 21 is legally grounded in a series of statutory regulations that establish both the authority and the technical framework for tax withholding on income derived from employment, services, and certain activities. The primary legal basis is Article 21 paragraph (5) of Law Number 36 of 2008 concerning Income Tax, as amended by Law Number 7 of 2021 on the Harmonization of Tax Regulations. This provision stipulates that the tax rate applied to income subject to Article 21 follows the progressive tax rates set out in Article 17 paragraph (1) letter a, unless otherwise regulated by a Government Regulation. This legal formulation provides flexibility for the government to introduce technical adjustments in response to administrative and economic considerations.

In practice, this flexibility has been exercised through the issuance of Government Regulation Number 58 of 2023, which introduces a new mechanism for withholding Income Tax Article 21 using the Average Effective Rate (TER). This regulation does not alter the substantive tax burden imposed on taxpayers but instead modifies the method of calculating periodic tax withholdings. Within the training activities, this distinction was emphasized to ensure that MSME actors understood that the TER scheme operates as an administrative simplification rather than a replacement of the statutory progressive tax rates. Participants gradually recognized that annual tax calculations remain anchored in Article 17, while monthly or daily withholdings may follow the TER mechanism.

Further technical guidance is provided through Minister of Finance Regulation Number 168 of 2023, which outlines detailed procedures for withholding Income Tax on income related to employment, services, and activities performed by individual taxpayers. This regulation clarifies the scope of income subject to withholding, allowable deductions, and administrative responsibilities of employers or income payers. During the discussion sessions, participants were

introduced to these regulatory provisions to strengthen their understanding of compliance obligations and to reduce ambiguity in applying tax rules at the operational level.

The findings from the implementation indicate that a clear explanation of the legal basis for Income Tax Article 21 calculation significantly improved participants' confidence in applying tax regulations. By understanding the hierarchical relationship between laws, government regulations, and ministerial regulations, MSME actors were better equipped to interpret tax policies and adapt to regulatory changes. This result highlights the importance of embedding legal literacy within practical tax training to promote accurate, consistent, and sustainable tax compliance among MSMEs.

#### **Changes in the Income Tax Article 21 Calculation Scheme**

The implementation of the new calculation scheme for Income Tax Article 21 represents a significant adjustment in the administrative mechanism of tax withholding, while maintaining the fundamental principles of the income tax system. The revised scheme, often referred to as the *To Be* scheme, is designed to align tax withholding practices with the characteristics of income recipients and the timing of tax calculation. In the context of this study, the introduction of the revised scheme was a central topic in the training activities, as it directly affected how MSME actors perform periodic tax withholdings for their employees.

One of the most notable changes in the calculation scheme is the restructuring of withholding procedures for permanent and non-permanent employees outside the final tax period. Under the revised scheme, income received within a single tax period is aggregated before the application of the relevant withholding mechanism. This approach aims to simplify administrative processes and reduce inconsistencies that previously arose from fragmented income calculations. During the training sessions, participants learned how income components such as basic salary, allowances, and other benefits are combined within a tax period to determine the appropriate withholding amount.

Another important aspect of the revised scheme concerns the expanded scope of Income Tax Article 21 calculation. The updated mechanism extends the application of withholding rules to a broader range of income recipients, including participants in pension programs who remain classified as employees when withdrawing pension funds. This expansion was discussed in detail during the training to ensure that MSME actors understood their obligations when dealing with various types of income recipients. Participants acknowledged that this clarification helped them avoid misclassification errors that could lead to non-compliance.

The revised calculation scheme also introduces adjustments related to allowable deductions and exclusions. Certain mandatory religious contributions and specific types of income are now treated differently in the withholding process, providing clearer guidance on what constitutes taxable income. These adjustments were particularly relevant for MSME actors, as they often manage payroll and deductions manually. Through practical examples, participants were able to identify which income components should be included or excluded in the calculation of Income Tax Article 21 under the new scheme.

The results of the training indicate that understanding the changes in the calculation scheme significantly improved participants' ability to apply Income Tax Article 21 regulations accurately. By comprehending the rationale behind the revised scheme and its operational implications, MSME actors developed greater confidence in performing tax calculations in accordance with current regulations. This finding underscores the importance of continuous socialization and training in ensuring that regulatory changes are effectively implemented at the operational level, particularly among MSMEs with limited access to formal tax advisory services.

#### **Adjustments in the Regulatory Framework of Income Tax Article 21 Calculation**

The adjustments in the regulatory framework governing the calculation of Income Tax Article 21 were introduced to provide greater clarity, consistency, and administrative efficiency in tax withholding practices. These adjustments refine the revised calculation scheme by specifying the roles and obligations of income payers, clarifying the scope of taxable income, and aligning technical provisions with the overarching principles of the income tax system. Within the context of this study, these regulatory adjustments were an essential component of the training activities, as they directly influenced the practical application of tax rules by MSME actors.

One of the key regulatory adjustments concerns the clarification of criteria for income payers who are not required to withhold Income Tax Article 21. This clarification helps prevent misinterpretation of withholding obligations, particularly in cases where income recipients are not directly engaged in employment or independent services related to the payer's business activities. During the training sessions, participants were guided to distinguish between situations that require tax withholding and those that are exempt, thereby reducing the risk of over-withholding or non-compliance.

Another important adjustment relates to the harmonization of regulations concerning allowable deductions from gross income. The integration of provisions on job-related expenses, pension contributions, and other deductible components simplifies the calculation process and provides a more uniform basis for determining taxable income. For MSME actors who often manage payroll administration without specialized tax staff, this harmonization was perceived as a practical improvement that reduces administrative complexity and calculation errors.

The revised regulatory framework also expands the types of income excluded from withholding, including certain forms of assistance, grants, and mandatory religious contributions made through employers. This adjustment was particularly relevant in the MSME context, where such payments frequently occur and were previously subject to uncertainty. Through the training activities, participants gained a clearer understanding of how these exclusions should be treated, enabling them to apply the regulations more accurately in daily practice.

The findings of this study indicate that these regulatory adjustments enhanced participants' ability to interpret and implement Income Tax Article 21 regulations with greater confidence. By understanding the rationale and scope of the adjusted rules, MSME actors were better prepared to adapt to regulatory changes and ensure compliance with current tax requirements. This outcome highlights the importance of comprehensive regulatory socialization in supporting effective and sustainable tax administration at the MSME level.

Table 1. Summary of the To Be Scheme for Income Tax Article 21

No.	Income Recipient Category	Type of Income	Tax Application	Calculation Scheme
1	Permanent Employees and Pensioners	All types of income	Applied in each tax period, except the final tax period	Gross Income $\times$ Monthly TER
2	Civil Servants / Military / Police / State Officials / Their Pensioners	Regular fixed income	Applied in the final tax period	Annual Taxable Income $\times$ Article 17 Progressive Rates
3	Members of the Board of Commissioners / Supervisory Board	Honoraria and similar payments	Applied per tax period	Gross Income $\times$ Monthly TER
4	Non Permanent Employees	Wages and similar income not paid monthly $\leq$ IDR 2.5 million per day	Applied per tax period	Daily Gross Income $\times$ Daily TER
		Wages and similar income not paid monthly $>$ IDR 2.5 million per day	Applied per tax period	Gross Income $\times$ 50% $\times$ Article 17 Rates
		Wages and similar income paid monthly	Applied per tax period	Monthly Gross Income $\times$ Monthly TER
5	Non-Employees	Honoraria and similar payments	Applied per tax period / at the time income is payable	Gross Income $\times$ 50% $\times$ Article 17 Rates
6	Activity Participants	Prizes or income related to activities	Applied per tax period / at the time income is payable	Gross Income $\times$ Article 17 Rates
7	Pension Program Participants (Employees)	Early withdrawal of pension funds	Applied per tax period	Gross Income $\times$ Article 17 Rates
8	Former Employees	Production fees, tantiem, gratuities, bonuses, or other compensation	Applied per tax period	Gross Income $\times$ Article 17 Rates

### Revised Scheme of Income Tax Article 21

The revised scheme of Income Tax Article 21 reflects a comprehensive restructuring of the tax withholding mechanism aimed at improving administrative efficiency and regulatory clarity. This scheme introduces a more systematic approach to determining tax obligations by categorizing income recipients based on their employment status and the nature of income received. In the context of this study, the revised scheme was a critical aspect of the training program, as it directly affected how MSME actors understand and apply withholding rules in their daily payroll and payment practices.

Under the revised scheme, the calculation of Income Tax Article 21 is no longer treated uniformly across all income recipients. Instead, different calculation mechanisms apply to permanent employees, non-permanent employees, non-employee income recipients, and other specific subject categories. This differentiation was emphasized during the training activities to ensure that MSME actors could correctly identify the applicable scheme for each type of income recipient. Participants gradually recognized that accurate classification is a fundamental step in preventing errors in tax withholding and reporting.

The revised scheme also emphasizes the aggregation of income within a tax period to determine the appropriate withholding amount. By consolidating all income components received during a given period, the scheme reduces inconsistencies that previously arose from fragmented calculations. For MSMEs, this approach was perceived as a practical improvement, as it provides a clearer basis for calculating tax obligations and minimizes discrepancies between periodic withholding and annual tax reconciliation.

The findings from the implementation indicate that introducing the revised Income Tax Article 21 scheme improved participants' understanding of the overall structure of tax withholding regulations. MSME actors reported greater confidence in distinguishing between different taxpayer categories and applying the appropriate calculation mechanism accordingly. This improved understanding suggests that the revised scheme, when supported by effective socialization and training, can enhance compliance accuracy and reduce administrative burdens at the MSME level. Overall, the



revised scheme represents a significant step toward a more transparent and adaptable tax administration system, particularly for small and medium-sized enterprises operating in diverse economic contexts.

### 1. Permanent employee

Table 2. Changes in the Income Tax Article 21 Scheme for Non Permanent Employees

Previous Scheme		Revised Scheme ( <i>To Be</i> )	
Gross Income ≤ IDR 450,000 / day	Tax Rate Not subject to withholding	Income Threshold ≤ IDR 450,000 / day	Tax Rate 0% × Daily Gross Income
> IDR 450,000 / month – IDR 4,500,000 / month	5% × (Gross Income – IDR 450,000)	> IDR 450,000 / day – IDR 2,500,000 / day	0.5% × Daily Gross Income
> IDR 4,500,000 / month – IDR 10,200,000 / month	5% × (Gross Income – Daily Non- Taxable Income Threshold)	≥ IDR 2,500,000 / day	Article 17 Rate × 50% × Gross Income
> IDR 10,200,000 / month	Article 17 Rate × (Gross Income – Non-Taxable Income Threshold)	Paid monthly	Article 17 Rate × 50% × Gross Income
Paid monthly	Article 17 Rate × (Gross Income – Non-Taxable Income Threshold)	Paid monthly	Monthly Effective Rate × Gross Income

### 2. Temporary employees

Table 3. Changes in the Income Tax Article 21 Scheme for Non-Permanent Employees

Previous Scheme		Revised Scheme ( <i>To Be</i> )	
Gross Income ≤ IDR 450,000 per day	Tax Rate Not subject to withholding	Income Level ≤ IDR 450,000 per day	Tax Rate 0% × Daily Gross Income
> IDR 450,000 per month – IDR 4,500,000 per month	5% × (Gross Income – IDR 450,000)	> IDR 450,000 per day – IDR 2,500,000 per day	0.5% × Daily Gross Income
> IDR 4,500,000 per month – IDR 10,200,000 per month	5% × (Gross Income – Daily Non- Taxable Income Threshold)	≥ IDR 2,500,000 per day	Article 17 Rate × 50% × Gross Income
> IDR 10,200,000 per month	Article 17 Rate × (Gross Income – Non-Taxable Income Threshold)	Paid monthly	Article 17 Rate × 50% × Gross Income
Paid monthly	Article 17 Rate × (Gross Income – Non-Taxable Income Threshold)	Paid monthly	Monthly Effective Rate × Gross Income

### 3. Not an Employee

Table 4. Changes in the Income Tax Article 21 Scheme for Non-Employees

No.	Condition	Previous Tax Treatment	Revised Tax Treatment ( <i>To Be</i> )
1	Non-continuous income	Article 17 Rate × (Gross Income × 50%)	Article 17 Rate × (Gross Income × 50%)
2	Continuous income, having Tax Identification Number (NPWP), receiving income solely from an employment relationship subject to Income Tax Article 21, and not receiving other income	Article 17 Rate × (Gross Income × 50%) – Non-Taxable Income (PTKP) on a cumulative basis	Article 17 Rate × (Gross Income × 50%)
3	Continuous income, without Tax Identification Number (NPWP) or receiving other income outside the employment relationship subject to Income Tax Article 21	Article 17 Rate × (Gross Income × 50%) on a cumulative basis	Article 17 Rate × (Gross Income × 50%)

### 4. Other Subjects

Table 5. Changes in the Income Tax Article 21 Scheme for Other Tax Subjects

No.	Previous Scheme – Tax Subject	Previous Tax Treatment	Revised Scheme ( <i>To Be</i> ) – Tax Subject	Revised Tax Treatment
1	Activity participants	Article 17 Rate × Gross Income	Activity participants	Article 17 Rate × Gross Income
2	Employees withdrawing funds from pension programs	—	Employees withdrawing pension- related funds	Article 17 Rate × Gross Income

3	Former employees receiving bonuses	Article 17 Rate $\times$ Gross Income (cumulative)	Former employees receiving bonuses	Article 17 Rate $\times$ Gross Income
4	Members of the Board of Commissioners / Supervisory Board not concurrently serving as permanent employees	—	Members of the Board of Commissioners / Supervisory Board receiving irregular or non-fixed income	Monthly TER $\times$ Gross Income

### Implementation

The implementation of the socialization and training method was carried out directly at the MSME business location in Watesprojo Village. The activities focused on practical guidance and interactive discussions related to the calculation of Income Tax Article 21 using the *Average Effective Rate* (TER). As shown in Figure 1, MSME actors actively participated in the training sessions, allowing for direct engagement and contextual learning. Furthermore, the outcomes of the implementation are reflected in the continuity of MSME production activities, as illustrated in Figure 2, which presents product samples from UD Annur following the training program.



Figure 1. Group Photo

In addition to improvements in tax literacy and administrative understanding, the implementation of the socialization and training activities also supported the continuity of MSME production. As shown in Figure 1, UD Annur continued to produce and package its banana chips during and after the training program. This indicates that the implementation of the method did not disrupt business operations and, instead, strengthened MSME awareness of formal business practices alongside improved compliance with Income Tax Article 21 regulations.



Figure 2. Socialization and training activities on Income Tax Article 21

The implementation of the socialization and training program was conducted directly at the MSME business location in Watesprojo Village. The activities involved MSME actors and facilitators in interactive discussions and practical guidance related to the calculation of Income Tax Article 21 using the *Average Effective Rate* (TER). As illustrated in Figure 2, the implementation emphasized direct engagement with business owners, enabling contextual learning and immediate clarification of tax-related issues. This approach allowed participants to better understand tax obligations while maintaining continuity in their daily business activities.

### CONCLUSION

This study concludes that socialization and training on Income Tax Article 21 based on the Average Effective Rate (TER) constitute an effective approach to improving tax literacy and administrative capacity among MSMEs in Watesprojo Village. The implementation of the program successfully addressed the initial problems identified in the study, namely limited understanding of tax regulations, difficulties in calculating Income Tax Article 21, and low confidence in fulfilling tax obligations. Through integrated socialization and practical training, MSME actors were able to gain a clearer understanding of the legal basis of Income Tax Article 21, the changes in the calculation scheme, and the practical application of the TER mechanism without perceiving it as an additional tax burden.

The findings also demonstrate that combining conceptual explanations with hands-on training is crucial for bridging the gap between regulatory knowledge and operational practice. MSME actors showed improved technical competence in calculating, withholding, and reporting Income Tax Article 21, as well as a more positive attitude toward tax

compliance. The implementation process further indicated that tax education activities can be conducted without disrupting business operations, as evidenced by the continued production activities of participating MSMEs. Overall, this study highlights the importance of continuous and context-based tax education as a strategic instrument to support sustainable tax compliance among MSMEs. The results are expected to serve as a practical reference for similar socialization and training programs in other regions, particularly in rural MSME contexts facing comparable challenges.

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