



FROM COMPLIANCE TO COMPETITIVENESS: MSME ADAPTATION TO THE VAT RATE INCREASE IN JAKARTA

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Abstract

This study examines the responses of Micro, Small, and Medium Enterprises (MSMEs) in Jakarta to the increase in Value Added Tax (VAT) rates, focusing on administrative challenges and pricing strategies to maintain competitiveness and business sustainability. A qualitative design was employed using content analysis of secondary data. It comprised nine peer-reviewed journal articles published between 2020 and 2025 obtained through Google Scholar, and six tax regulations purposively selected for their relevance to VAT reform. The findings indicate that MSME responses are primarily determined by their regulatory understanding, digital readiness, and capacity to adapt to fiscal changes. Key challenges include low tax literacy, difficulties operating e-invoicing systems, and limited comprehension of Taxable Entrepreneur (PKP) obligations. The complexity of digital administration remains a significant barrier, particularly for enterprises with limited technological capacity. To mitigate fiscal pressures, MSMEs adopt various pricing strategies supported by cost efficiency, digitalization, and sound financial planning. The study recommends that the Directorate General of Taxes simplify VAT reporting procedures, strengthen adaptive tax education, and expand digital infrastructure. Meanwhile, MSMEs are encouraged to enhance financial management and technological readiness. Future research should incorporate primary data collection to provide richer contextual insights into MSME adaptation to taxation reforms.

Keywords: Business Sustainability; MSMEs; Pricing Strategy; Tax Compliance; Value Added Tax

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have long been regarded as the backbone of Indonesia's economy. Their contribution extends beyond macroeconomic stability, as they also play a pivotal role in fostering inclusive growth, creating employment opportunities, and reducing poverty. By 2023, Indonesia will have approximately 65.5 million Micro, Small, and Medium Enterprises (MSMEs), representing around 99% of all registered business entities. The strategic weight of MSMEs is reflected in their substantial contribution of 61% to the national Gross Domestic Product (GDP), equivalent to around IDR 9,580 trillion, and their role in absorbing about 97% of the national workforce (Kementerian Koordinator Bidang Perekonomian, 2023). Furthermore, according to the Directorate General of Treasury (DJPb), Ministry of Finance (2023), the structure of business entities in Indonesia can be illustrated metaphorically as a building: the foundation consists of micro and small enterprises with around 64.1 million units (99.9%); the pillar comprises medium enterprises with about 60.7 thousand units (0.09%); and the roof represents large enterprises, which amount to only around 5,550 units or 0.01% of total business actors (Ditjen Perbendaharaan, 2023). These figures underscore the vital role of MSMEs in sustaining Indonesia's economic resilience, particularly during times of crisis and structural transformation. The Ministry of Finance has emphasized that the strength and dynamism of MSMEs remain a cornerstone of national growth, reflecting the entrepreneurial drive that characterizes Indonesians.

Despite this crucial role, MSMEs face fiscal and regulatory pressures. The enactment of Law No. 7 of 2021 on the Harmonization of Tax Regulations introduced an upward adjustment of the Value Added Tax (VAT) rate from 10% to 11% (Undang-Undang RI, 2021). While the reform aims to boost state revenue, it has posed unintended challenges for smaller enterprises. The increase in VAT is likely to elevate production and distribution costs, thereby compressing the already narrow profit margins of MSMEs. Moreover, the pass-through effect of higher VAT rates to consumer prices threatens to weaken household purchasing power,



reducing the sales performance of small businesses (Hoseini & Briand, 2020). Beyond these financial implications, the policy reform also heightens administrative burdens. MSMEs must adopt more complex tax reporting systems, including e-invoicing and adjustments to their Taxable Entrepreneur (PKP) status. These new requirements present substantial challenges for many business owners with limited tax literacy and inadequate technological capacity.

These fiscal and administrative pressures are felt most acutely in Jakarta, Indonesia's political, economic, and service hub. The city is home to a diverse base of MSMEs operating in trade, services, and manufacturing, with transaction volumes far surpassing those of other regions. Jakarta offers significant market opportunities and advanced infrastructure, but these benefits are coupled with challenges such as fierce market competition, higher compliance expectations, and consumers who are highly sensitive to price changes (Wulandari & Mardiana, 2023). Compounding the situation, operational costs in Jakarta are significantly higher than in other provinces (Winarti et al., 2019). The combination of higher taxes, elevated compliance requirements, and costly operations creates a precarious environment that forces MSMEs to adopt adaptive strategies to survive.

Within this context, many MSMEs in Jakarta struggle to fulfill their tax obligations accurately and consistently. Limited knowledge of tax regulations, insufficient human resources, and a lack of access to reliable fiscal information frequently lead to errors in reporting and, in some cases, intentional or unintentional non-compliance. These weaknesses undermine the effectiveness of fiscal policy and erode the competitiveness and long-term sustainability of the MSME sector in one of Indonesia's most critical economic centers.

This phenomenon is particularly concerning because the additional VAT burden risks distorting pricing structures, diminishing competitiveness, and further compressing profit margins in an already saturated and competitive market. For MSMEs in Jakarta, the ability to navigate administrative complexities, adopt effective pricing strategies, and maintain business sustainability under increasing fiscal pressure has become a crucial determinant of their survival. Given these circumstances, examining more closely how MSMEs in Jakarta respond to the VAT rate increase is imperative. This study considers explicitly three interrelated aspects: administrative compliance, pricing adjustment strategies, and broader efforts to secure business sustainability in the face of increasingly complex fiscal policies. Such an inquiry is essential for advancing academic understanding and informing policy interventions that balance state revenue objectives with the sustainability of Indonesia's most vital economic sector.

Tax non-compliance among MSMEs has been shown to increase following the adjustment of VAT rates, a trend primarily driven by behavioral and structural factors inherent to MSME owners (Arham & Firmansyah, 2021). Pertiwi (2023) demonstrated that changes in tax rates, taxpayer awareness, the application of tax sanctions, and the quality of tax authority services significantly influence compliance behavior. Despite these findings, overall tax compliance among MSMEs remains relatively low (Sofianti & Wahyudi, 2022). One of the primary causes is the combination of limited tax literacy and the perceived complexity of regulatory frameworks, which many small businesses find burdensome (Yuliati & Fauzi, 2020). This issue becomes especially critical in highly competitive markets such as Jakarta, where additional tax burdens can disrupt pricing structures, compress profit margins, and weaken MSME sustainability.

Although prior studies have provided valuable insights, research focusing specifically on MSMEs in Jakarta remains limited. For instance, Sofianti & Wahyudi (2022) and Yuliati & Fauzi (2020) analyzed tax compliance among MSMEs. However, their analyses were conducted in regional contexts outside Jakarta and did not explore the adaptive mechanisms unique to urban enterprises. Similarly, Listya & Limajatini (2022) and Umiyati et al. (2024) highlighted the importance of fiscal outreach and educational programs in strengthening tax



compliance. However, these studies did not extend their scope to assess how fiscal policy changes, such as the recent VAT rate increase, affect operational decisions, pricing strategies, and broader business sustainability. This study, therefore, seeks to fill this gap by adopting an integrated perspective on how MSMEs in Jakarta respond to the VAT increase, focusing not only on compliance but also on administrative challenges, strategic pricing, and long-term resilience.

This research aims to analyze how MSMEs in Jakarta respond to the increase in VAT rates. It seeks to identify the tax administration challenges encountered by MSMEs following the rate adjustment, to examine the pricing strategies adopted to maintain competitiveness amid fiscal pressures, and to assess how these responses influence long-term business continuity and sustainability in an intensely competitive urban economy. The expected contributions of this study are both theoretical and practical. Theoretically, the research enriches the literature by linking three critical dimensions, tax compliance, pricing strategy, and business sustainability, within the context of VAT policy reform. It contributes region-specific insights that are particularly relevant for Jakarta, Indonesia's economic epicenter, which remains underexplored in MSME taxation studies. From a practical standpoint, the findings are expected to offer valuable implications for the Directorate General of Taxes (DGT). By highlighting the primary obstacles MSMEs face in complying with VAT obligations, this research can inform efforts to simplify administrative procedures, strengthen digital literacy programs, and design more effective fiscal outreach initiatives. Such measures are essential for securing state revenues and ensuring MSME resilience and long-term sustainability in the evolving fiscal landscape.

LITERATURE REVIEW

Micro, Small, and Medium Enterprises (MSMEs) are a fundamental pillar of Indonesia's economic system, formally defined under Law No. 20 of 2008 based on asset ownership and turnover thresholds (Undang-Undang Republik Indonesia Nomor 20 Tahun 2008 Tentang Usaha Mikro Kecil Dan Menengah, 2008). These enterprises are generally characterized by limited capital, restricted human resources, and insufficient access to advanced technology (Tambunan, 2019). Despite these constraints, MSMEs play a central role in fostering inclusive growth and maintaining macroeconomic stability. According to the Coordinating Ministry for Economic Affairs (2023), Indonesia has approximately 65.5 million Micro, Small, and Medium Enterprises (MSMEs), representing 99% of all registered business entities. MSMEs contribute around 61% to the national Gross Domestic Product (GDP), equivalent to about IDR 9,580 trillion, and absorb roughly 97% of the total workforce (Kementerian Koordinator Bidang Perekonomian RI, 2022). This pivotal role makes MSMEs essential for sustaining Indonesia's economic resilience, particularly in crisis and structural transformation. Nevertheless, as highlighted by Suryadi (2023), MSMEs continue to face persistent structural challenges, including weak financial management practices, limited innovation capacity, and difficulties in digital transformation, all of which constrain their long-term competitiveness..

One of the fiscal policies with direct implications for MSMEs is the Value Added Tax (VAT). VAT, first introduced under Law No. 8 of 1983 and revised through Law No. 7 of 2021, increased from 10% to 11% in 2022 and is scheduled to reach 12% by 2025 (Undang-Undang RI, 2021). While the reform is designed to strengthen state revenues, its impact on MSMEs is considerable. VAT tends to raise distribution and production costs, compressing profit margins for businesses that typically lack economies of scale. Hoseini & Briand (2020) further emphasize that tax-driven increases in consumer prices can weaken household purchasing power, ultimately affecting MSME sales performance. Beyond these financial effects, VAT reform also brings behavioral consequences: taxpayer awareness, the threat of sanctions, and the quality of tax authority services significantly shape compliance outcomes (Pertiwi, 2023).



Thus, VAT serves as a fiscal instrument and a behavioral signal influencing how MSMEs adapt to regulatory and economic pressures.

In this context, tax compliance is a multidimensional concept encompassing cognitive, affective, and normative elements. The cognitive element refers to knowledge and understanding of tax regulations, which strongly influence the ability of business actors to comply accurately with their obligations (Kurniawan & Hidayati, 2021; Tunjungsari, 2025). The affective dimension reflects taxpayers' perceptions and emotional attitudes toward authorities, including fairness and service quality (Judijanto, 2024). Meanwhile, the normative dimension captures the influence of social norms and peer pressures, which can either strengthen or weaken the legitimacy of compliance (Wulandari & Mardiana, 2023). Prior studies confirm that low tax literacy remains a persistent obstacle to compliance (Julito & Ramadani, 2024), while inadequate readiness for digitalization often leads to resistance to new reporting systems such as e-invoicing (Arham & Firmansyah, 2021). These findings illustrate that compliance is not simply a technical matter but a socio-behavioral process embedded in knowledge, attitudes, and social environments.

The Theory of Planned Behavior (TPB) further explains the behavioral foundation of tax compliance. Ajzen (1991) posits that intention drives behavior, which is shaped by attitudes toward the behavior, subjective norms, and perceived behavioral control. Applied to taxation, this implies that MSMEs' compliance is influenced not only by their evaluation of costs and benefits (attitude) but also by perceived expectations from peers, customers, and authorities (subjective norms), as well as by their confidence in their ability to meet reporting and administrative requirements (perceived control). In Jakarta, where competition is intense and consumers are highly price-sensitive, TPB suggests that compliance intentions are particularly sensitive to perceptions of fairness, capacity constraints, and social legitimacy.

Complementing TPB, the compliance theory, particularly the slippery slope framework (Kirchler et al., 2008), provides another layer of explanation. This framework distinguishes between enforced compliance, driven by coercive power such as audits and sanctions, and voluntary compliance, built on trust in the fairness and legitimacy of tax authorities. Prinz et al. (2014) formalize this approach, demonstrating that a balanced combination of power and trust fosters optimal compliance. In practice, MSMEs that perceive tax authorities as punitive may comply out of fear, while those that perceive fairness and support are more likely to comply voluntarily. This perspective is critical in Jakarta, where the complex economic environment magnifies the interplay between deterrence and trust in shaping compliance behavior.

More recent research has expanded the compliance literature by integrating regulatory focus and social norms. Kleber et al. (2025) argue that descriptive norms, knowledge of how others behave, affect compliance differently depending on whether taxpayers adopt a promotion focus (seeking gains and ideals) or a prevention focus (avoiding losses and fulfilling obligations). Taxpayers with a prevention focus are more responsive to social norms, translating external expectations into stronger compliance. This nuance is highly relevant for MSMEs in Jakarta, many of whom operate in tightly networked business communities where social expectations and peer behavior significantly influence attitudes toward tax obligations. At the same time, adaptive business strategies, such as the adoption of e-commerce (Hidayat & Kholik, 2024) and improved financial literacy (Valdiansyah & Widiyati, 2024), remain critical for managing the pricing and sustainability challenges associated with VAT increases.

In addition to behavioral frameworks, two broader theoretical perspectives enrich the analysis of MSME responses. The Resource-Based View (RBV) emphasizes that competitive advantage arises from internal resources and capabilities. According to Barney (1991), firm resources include "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies



that improve its efficiency and effectiveness." MSMEs with resources that are valuable, rare, inimitable, and non-substitutable (VRIN), such as strong financial management, digital infrastructure, and innovative capabilities, are better positioned to adjust prices, absorb VAT burdens, and sustain long-term competitiveness.

Meanwhile, the legitimacy theory highlights that organizational survival depends on aligning actions with societal norms, values, and expectations (Suchman, 1995). For MSMEs, compliance with VAT regulations, transparent pricing, and the adoption of digital tax reporting systems are administrative necessities and mechanisms to secure legitimacy. Pragmatic legitimacy arises when businesses satisfy regulators' expectations, moral legitimacy when they are perceived as contributing fairly to public finance, and cognitive legitimacy when compliance becomes normalized as part of formal business practice. In Jakarta's competitive and highly scrutinized environment, such legitimacy is essential for maintaining consumer trust and institutional support.

Thus, the literature suggests that MSMEs' responses to VAT increases cannot be explained solely through economic rationality. Instead, they are shaped by structural constraints, regulatory frameworks, behavioral intentions, compliance dynamics, internal resources, and the pursuit of legitimacy. The integration of TPB, the Slippery Slope Framework, regulatory focus theory, RBV, and Legitimacy Theory underscores that MSME adaptation is simultaneously a behavioral, strategic, and institutional process. These pressures are particularly acute for Jakarta-based MSMEs due to high operational costs, fierce competition, and strong consumer sensitivity to price changes. This conceptual integration provides a robust foundation for analyzing how MSMEs adapt administratively, strategically, and behaviorally in response to VAT policy reforms.

METHODS

This study employed a literature review approach combined with content and thematic analysis to examine how Jakarta's Micro, Small, and Medium Enterprises (MSMEs) respond to increased Value Added Tax (VAT) rates. The approach was designed to provide a systematic and in-depth understanding of meanings, patterns, and insights drawn from various written sources. Secondary data were obtained from official government reports—particularly those published by the Ministry of Cooperatives and SMEs, the Central Statistics Agency (BPS), and the Directorate General of Taxes (DGT), as well as from peer-reviewed academic journals. A total of six relevant fiscal regulations and nine scientific publications were reviewed to identify central themes related to tax compliance, pricing strategies, and business sustainability.

Jakarta was chosen as the focus of the study because it represents Indonesia's national economic hub and reflects diverse MSME dynamics. The region is characterized by rapid fiscal policy implementation, advanced levels of digitalization in specific sectors, and ongoing challenges in financial literacy and formal tax reporting. Previous reports by BPS DKI Jakarta and DGT highlight that, although MSMEs play a vital role in the regional economy, their tax contribution and compliance levels remain relatively low due to administrative burdens and uneven digital adoption. This contextual background reinforces the need to analyze MSME responses to fiscal changes, particularly VAT policy-related ones.

The literature search was conducted through Google Scholar using keywords such as MSMEs, VAT, tax compliance, pricing strategies, and business sustainability. Inclusion criteria required that selected documents were published between 2021 and 2025, and directly addressed MSME and VAT-related topics. Sources that did not meet these criteria were excluded. The data analysis followed several stages. First, all materials were categorized according to thematic clusters covering compliance dimensions (cognitive, affective, and normative), price adjustment mechanisms, and sustainability aspects. Second, thematic analysis



was applied to identify recurring patterns and relationships within the literature. Third, document triangulation was used to compare findings across academic and policy sources to ensure reliability and validity. Finally, the results were synthesized into an integrative narrative to explain how MSMEs adapt to fiscal policy changes, particularly the VAT rate adjustment. This methodological design facilitated a structured mapping of existing studies and provided analytical insights into the adaptation of MSMEs in Indonesia's evolving tax environment.

RESULTS AND DISCUSSIONS

The research focuses on Jakarta, Indonesia's national economic hub, which recorded 79,992 micro and small enterprises (MSEs) employing approximately 226,681 workers in 2022 (BPS DKI Jakarta, 2025). The city was selected due to its complex business dynamics, rapid fiscal policy adoption, and operational challenges, including high living costs and technological disparities between central and peripheral areas. Although MSMEs in Jakarta demonstrate a relatively advanced level of digitalization, particularly in the trade and food-processing sectors, which dominate the local economy, regional inequalities in digital adoption and access to finance remain evident. The wholesale and retail trade sector, including the repair of motor vehicles and motorcycles, contributes 18.01 percent to Jakarta's Gross Regional Domestic Product (GRDP), underscoring the critical role of MSMEs in the city's economic structure (BPS DKI Jakarta, 2025). This study was conducted in three main stages: (1) categorizing data according to key themes, tax compliance, pricing strategy, and business sustainability; (2) collecting evidence from peer-reviewed journals and scientific publications; and (3) reviewing relevant government regulations. Table 1 presents the results of this thematic categorization.



Table 1. Grouping of Scientific Journals and Publications

No	Author(s) & Year	Research Objective	Method	Key Findings	Implications
1	Rioni et al. (2024)	To evaluate the potential level of MSME tax compliance following the VAT rate increase.	Qualitative (content analysis and scoping review)	MSMEs show potential improvement in compliance after the VAT increase, though influenced by psychological and socialization factors.	Provides insight for the Ministry of Finance and the Ministry of Cooperatives to project MSME tax revenues.
2	Indahsari & Fitriandi (2021)	To analyze the effect of tax incentives during the COVID-19 pandemic on VAT revenue.	Quantitative (causal-associative)	Tax incentives under Article 22 Imports, Article 25, and Final Income Tax PP 23/2018 significantly affected VAT revenue.	The government should prioritize incentives with the most substantial impact on consumption and economic recovery.
3	Pebriadi et al. (2023)	To develop a tax calculator assisting MSMEs in computing VAT obligations.	Case study (descriptive)	The tax calculator application facilitates accurate VAT computation and improves MSME reporting efficiency.	Digital tools enhance MSME tax compliance and administrative convenience.
4	Maretaniandini et al. (2023)	To assess the potential for MSME tax compliance after VAT rate adjustment using attribution theory.	Qualitative (content and scoping review)	VAT increase potentially enhances MSME compliance driven by awareness and social responsibility.	The policy can strengthen the tax base if supported by education and literacy initiatives.
5	Amalia et al. (2025)	To examine the impact of the 10%=>11% VAT increase on MSME production costs and purchasing power.	Qualitative (library research)	VAT increases raise MSME production costs and reduce consumer demand while supporting fiscal sustainability.	Compensation policies are needed to maintain MSME competitiveness amid higher tax burdens.
6	Ulfa & Aribowo (2021)	To identify strategies for enhancing MSME taxpayer awareness and compliance.	Qualitative (interviews & documentation)	Tax outreach and collaboration strategies improve compliance; challenges arise from uneven understanding among officers and taxpayers.	Strengthening outreach programs with clear KPIs is essential for sustainable MSME compliance.
7	Fahriani et al. (2024)	To explore cost of goods sold strategies that sustain MSME competitiveness.	Case study (descriptive)	Cost-based and market-based pricing increases profitability and resilience.	Efficient cost control supports MSME sustainability amid changing tax environments.
8	Listya & Limajatini (2022)	To examine the effect of tax knowledge, socialization, and incentives on MSME taxpayer compliance.	Quantitative (multiple regression using SPSS)	Tax socialization positively and significantly affects compliance, whereas tax knowledge alone is insignificant.	Direct education and socialization yield a more substantial behavioral impact than theoretical knowledge alone.
9	Umiyati et al. (2024)	To improve MSME tax literacy through community-based education.	Descriptive (community engagement program)	Education initiatives significantly increased MSME awareness and voluntary registration as taxpayers.	Expanding tax literacy programs is crucial to promote voluntary compliance and broaden the tax base.

Source: Data (Processed) by the Author



Table 1 summarizes the synthesis of nine journal articles and publications related to MSME tax compliance and VAT policy. Most studies (numbers 1-3) emphasize the role of education, outreach, and digital tools in enhancing MSME tax compliance, showing that socialization and user-friendly applications are more effective than technical knowledge alone. Several studies (numbers 4 and 5) discuss the broader implications of VAT rate increases, noting potential compliance improvements and the resulting challenges for MSME production costs and competitiveness. Meanwhile, studies (numbers 6-8) focus on strategic and operational responses, including awareness programs, cost management, and pricing strategies that help MSMEs remain resilient under changing tax conditions. The final study (number 9) reinforces the importance of community-based tax literacy programs to foster voluntary compliance and broaden the tax base. The literature suggests that the sustainability of MSME under higher VAT regimes depends on fiscal policy, education, digitalization, and adaptive financial planning. To complement these findings, this study further examines the regulatory landscape that governs MSME taxation and business activities under the current VAT framework. The following analysis identifies the key fiscal instruments that shape MSME compliance behavior, pricing adjustments, and business resilience. Table 2 presents the grouping of relevant regulations, outlining their main provisions and potential impacts on MSMEs within Indonesia's evolving tax environment.

Table 2. Grouping of Regulations

No.	Keywords	Related Regulation	Aspects Analyzed	Potential Impacts on MSMEs
1	Tax Compliance	Law No. 7 of 2021 on the Harmonization of Tax Regulations (HPP Law)	Establishes a unified tax framework, modernizes tax administration, and expands the VAT base.	Encourages formalization of MSMEs but increases administrative complexity and compliance obligations.
2	Tax Administration	Minister of Finance Regulation No. 71/PMK.03/2022 on the Implementation of VAT and Income Tax Obligations for Taxable Entrepreneurs (PKP)	Regulates VAT calculation, electronic invoicing (e-faktur), and digital reporting procedures.	Requires MSMEs to adopt digital tax systems, posing adaptation challenges for less digitized enterprises.
3	Pricing Strategy	Government Regulation No. 44 of 2022 on the Implementation of Value Added Tax and Luxury Goods Sales Tax	Specifies VAT rate adjustments, taxable transactions, and administrative reporting mechanisms.	Necessitates adjustments in selling prices following VAT changes, potentially reducing MSME competitiveness.
4	Business Sustainability	Presidential Regulation No. 2 of 2022 on the National Entrepreneurship Development Plan 2021-2024	Promotes entrepreneurship development, innovation, and fiscal/non-fiscal incentives for MSMEs.	Provides facilitation and incentives, though implementation remains uneven, especially among smaller enterprises.

Source: Data (Processed) by the Author

Regulations such as Law No. 7 of 2021 on the Harmonization of Tax Regulations (HPP Law) and Minister of Finance Regulation No. 71/PMK.03/2022 emphasizes mandatory tax administration and the adoption of electronic invoicing (e-invoicing) systems, which increase compliance obligations and digital adaptation requirements for MSMEs (Peraturan Menteri Keuangan, 2022; Undang-Undang RI, 2021). Regarding pricing strategy, Government Regulation No. 44 of 2022 stipulates adjustments in selling prices following the VAT rate increase, which may affect MSME competitiveness and pricing flexibility (Peraturan Pemerintah, 2022). Regarding business sustainability, Presidential Regulation No. 2 of 2022 introduces fiscal and non-fiscal incentives to strengthen entrepreneurship and MSME resilience; however, the implementation and accessibility of these incentives remain limited at the operational level (Peraturan Presiden RI, 2022).

While the regulatory framework establishes the formal obligations and incentives for MSMEs, understanding their behavioral and strategic responses requires a review of existing empirical studies. A thematic analysis of selected journal publications was conducted to capture



these perspectives, focusing on the recurring issues of tax compliance, pricing strategies, and business sustainability. Table 3 summarizes the thematic patterns identified in the literature, highlighting the relationships among key themes, their analytical focus, and the main findings related to MSME adaptation under the VAT regime.

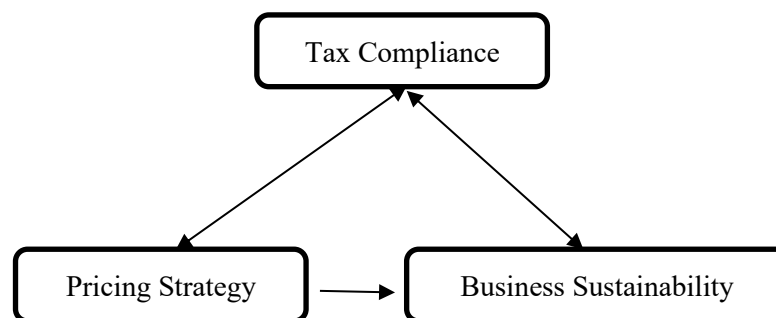
Table 3. Thematic Analysis of Scientific Journals and Publications

Key Themes	Focus	Author(s)	Patterns & Relationships
Tax Compliance	Examines MSME compliance behavior, tax education, socialization, and digital innovation influence voluntary compliance.	Indahsari & Fitriandi (2021), Pebriadi et al. (2023), Rioni et al. (2024), Ulfa & Aribowo (2021), Umiyati et al. (2024)	Studies show that education and outreach programs play a significant role in improving tax compliance. Digital tools such as tax calculators simplify VAT reporting, while literacy programs and community-based education enhance voluntary compliance. Socialization has a more substantial behavioral effect than mere technical knowledge.
Pricing Strategy	Focuses on how MSMEs determine the cost of goods sold and maintain profitability amid VAT increases.	Fahriani et al. (2024)	Proper cost-based and market-based pricing strengthens MSME competitiveness and profitability. Financial planning and cost management are vital to sustaining operations under higher tax burdens.
Business Sustainability	Evaluates the broader economic and behavioral effects of VAT rate increases and their implications for MSME resilience.	Amalia et al. (2025), Listya & Limajatini (2022), Maretianiandini et al. (2023)	VAT rate increases can potentially enhance compliance, raise production costs, and reduce purchasing power. Sustainable business performance depends on government support, adaptive financial planning, and MSME tax awareness. Integrating education and digitalization promotes long-term resilience.

Source: Data (Processed) by the Author

Table 3 demonstrates that tax compliance among MSMEs is primarily driven by education and outreach initiatives, which strengthen entrepreneurs' understanding and awareness of their fiscal responsibilities. In the context of the VAT rate increase, pricing strategies have emerged as a vital mechanism, as MSMEs must continuously adjust their prices to maintain competitiveness and preserve market share. Meanwhile, business sustainability is shaped by several interrelated factors, including digitalization, financial planning, innovation, and tax literacy, all becoming critical when facing external disruptions such as the pandemic.

These themes are highly interconnected. Tax compliance contributes directly to business sustainability, as education and outreach programs enhance compliance and foster long-term organizational resilience. Conversely, sustainable MSMEs are better positioned to meet their tax obligations consistently. Pricing strategies also play a pivotal role in sustaining business performance, as timely and well-informed price adjustments ensure profitability and continuity amid changing tax environments. Ultimately, tax compliance and pricing strategy reinforce one another, since compliant MSMEs must integrate VAT considerations into their pricing structures to remain lawful, competitive, and financially stable.



Source: Image (Created) by the Author

Figure 1. Inter-theme Relationship Diagram

The diagram illustrates the reciprocal relationships among Tax Compliance, Pricing Strategy, and Business Sustainability. Tax Compliance and Business Sustainability are mutually reinforcing: tax education and awareness strengthen compliance, while sustainable business performance supports the consistent fulfillment of tax obligations. Pricing Strategy



directly influences Business Sustainability, particularly in the context of VAT rate adjustments, as appropriate pricing decisions help MSMEs maintain profitability and market competitiveness. Meanwhile, there is also a two-way interaction between Tax Compliance and Pricing Strategy, since pricing must incorporate VAT considerations, and effective pricing practices enhance MSMEs' ability to meet their tax obligations accurately and on time.

Building upon the interrelationships illustrated in Figure 1, the regulatory dimension plays a central role in shaping how these themes interact within the MSME context. The extent to which tax compliance, pricing strategy, and business sustainability can reinforce one another largely depends on the underlying legal framework that governs MSME taxation and operations. To clarify this connection, the following table presents a thematic analysis of the key regulations discussed earlier, outlining how each regulatory instrument corresponds to the identified themes and influences MSME behavior. Table 4 summarizes these relationships, emphasizing the alignment between policy objectives and MSME adaptive responses.

Table 4. Thematic Analysis of Regulations

Key Themes	Main Focus	Relationship to Regulations
Tax Compliance	Examining how MSMEs can fulfill VAT obligations and adapt to administrative and digital reporting requirements.	Regulations establish mandatory administrative procedures, electronic invoicing systems, and reporting mechanisms for taxable entrepreneurs.
Pricing Strategy	Assessing MSMEs' pricing adjustments and competitiveness following the VAT rate increase.	Regulations define invoice structures, tariff mechanisms, and price calculation methods related to VAT implementation.
Business Sustainability	Evaluating the long-term implications of taxation policies on MSME continuity, resilience, and growth.	Regulations provide fiscal and non-fiscal incentives, specify VAT registration thresholds, and promote an enabling business environment.

Source: Data (Processed) by the Author

Table 4 illustrates the relationship between the key themes and their corresponding regulatory frameworks. In terms of Tax Compliance, regulations such as Law No. 7 of 2021 on the Harmonization of Tax Regulations (HPP Law) and Minister of Finance Regulation No. 71/PMK.03/2022 on electronic invoicing (e-invoicing) establish mandatory administrative and reporting requirements that MSMEs must comply with and adapt to. Regarding Pricing Strategy, regulations governing tariff structures and invoice formats, particularly under Government Regulation No. 44 of 2022, require MSMEs to adjust their selling prices following the VAT rate increase, which may affect their competitiveness. Meanwhile, within the theme of Business Sustainability, Presidential Regulation No. 2 of 2022 introduces fiscal and non-fiscal incentives and measures to improve the ease of doing business, aiming to strengthen MSME resilience. However, implementing these provisions remains suboptimal, warranting further evaluation to ensure that MSMEs can fully benefit from these policy measures.

Analysis of MSME Responses in Jakarta to the VAT Rate Increase

The responses of MSMEs in Jakarta to the VAT rate increase can be broadly categorized into three behavioral patterns. The first group, active-adaptive MSMEs, demonstrates relatively strong managerial capacity, adequate financial literacy, and better access to fiscal information. These enterprises respond swiftly to regulatory changes by implementing administrative adjustments, such as complying with e-invoicing requirements, and recalibrating their pricing structures to accommodate the VAT increase. For this group, tax compliance is viewed not only as a legal obligation but also as a strategic instrument to maintain legitimacy, preserve competitiveness, and strengthen long-term market positioning.

In contrast, the second group, passive-defensive MSMEs, tends to delay adjustments in administrative compliance and pricing strategies. Limited resources, low tax literacy, and weak institutional trust constrain their responses. For these businesses, the VAT rate increase is perceived primarily as an additional cost burden rather than an opportunity for formalization or improvement. Consequently, their responses are reactive and short-term, leaving them more vulnerable to financial pressures and compliance risks.

The third group, neutral-waiting MSMEs, typically comprises micro-scale or informal



enterprises that have yet to experience the direct effects of the VAT increase. These businesses are cautious, observing regulatory enforcement and consumer responses before making operational adjustments. Although they may not yet face immediate disruption, this group reflects the broader uncertainty and hesitation among small enterprises in Jakarta toward fiscal reforms.

The response variation is strongly influenced by business scale, sector, and location. Medium-sized MSMEs generally exhibit higher compliance capability than micro-enterprises due to superior infrastructure and more specialized human resources. Sectoral patterns are also evident: MSMEs in the culinary and retail sectors adapt faster than services because of higher transaction frequencies and greater consumer sensitivity to price changes. These findings align with Tax Compliance Theory, which emphasizes the cognitive, affective, and normative dimensions of compliance (Kirchler, 2007). Cognitive capacity, such as understanding reporting procedures, enables faster adaptation; affective perceptions of fairness influence trust in tax authorities; and normative pressures, including peer and community expectations, encourage conformity with tax obligations.

From a behavioral standpoint, the Theory of Planned Behavior (Ajzen, 1991) provides a valuable framework for interpreting these differences. Active-adaptive MSMEs exhibit positive compliance attitudes, strong perceived behavioral control, and supportive social norms, all reinforcing their intention to comply. Conversely, passive-defensive MSMEs demonstrate negative attitudes and weak perceived control, resulting in lower willingness to comply. Complementing this, the Slippery Slope Framework highlights the dual role of trust and power in shaping compliance behavior (Kirchler et al., 2008; Prinz et al., 2014). When MSMEs perceive tax authorities as punitive, compliance tends to be enforced coercively; however, when authorities are viewed as transparent and fair, voluntary compliance becomes more sustainable.

Furthermore, Kleber et al. (2025) emphasize the influence of regulatory focus and descriptive norms in determining tax behavior. MSMEs with a prevention focus, motivated by duty and the avoidance of sanctions, are more responsive to social norms. In contrast, those with a promotion focus, driven by aspirations and opportunity, are more likely to comply when taxation is framed as a means to legitimacy and business growth. This distinction helps explain why some MSMEs proactively adapt to fiscal changes, while others remain hesitant or resistant.

The concept of legitimacy provides an overarching lens to explain why compliance and adaptation are vital for MSME sustainability. According to Legitimacy Theory, organizations must align their activities with social norms, laws, and stakeholder expectations to maintain their legitimacy and secure public support (Suchman, 1995). For Jakarta-based MSMEs, adhering to VAT regulations, ensuring transparent pricing, and adopting digital reporting systems serve as administrative obligations and mechanisms for gaining institutional legitimacy in the eyes of consumers, regulators, and business partners. Sustainable MSMEs successfully balance compliance with stakeholder expectations, reinforcing their resilience in an increasingly competitive urban economy.

Therefore, MSME responses in Jakarta to the VAT rate increase reflect a complex interplay between regulatory capacity, behavioral intentions, social norms, and the pursuit of legitimacy. While active-adaptive MSMEs are relatively well-positioned to sustain their operations, passive-defensive and neutral-waiting enterprises reveal structural and behavioral vulnerabilities that require targeted policy interventions. These findings underscore the importance of aligning fiscal reforms with institutional support mechanisms—such as digital infrastructure development, tax literacy programs, and simplified administrative procedures—to ensure compliance measures strengthen, rather than hinder, Indonesia's MSME sector's long-term sustainability and legitimacy.



Identifying Tax Administration Challenges Faced by MSMEs Following the VAT Rate Increase

The increase in the VAT rate has imposed additional administrative burdens on MSMEs in Jakarta, generating challenges that can be broadly categorized into digital infrastructure constraints and human resource limitations. These two factors are closely interrelated and, when examined through behavioral and legitimacy frameworks, explain why many MSMEs remain vulnerable in adapting to fiscal reforms mandated under Law No. 7 of 2021 on the Harmonization of Tax Regulations and Minister of Finance Regulation (PMK) No. 71/PMK.03/2022 on electronic invoicing (e-invoicing).

The first significant challenge concerns digital readiness, particularly the mandatory use of e-invoicing systems as stipulated in PMK No. 71/PMK.03/2022. Although this policy aims to improve efficiency, transparency, and tax monitoring, many MSMEs continue to face limited technological access, uneven internet connectivity, especially in suburban districts of Jakarta, and low familiarity with digital applications. For micro and small enterprises, investment in digital infrastructure and employee training represents a substantial cost often deprioritized in favor of short-term operational needs. From the perspective of the Theory of Planned Behavior (Ajzen, 1991), this reflects a deficit in perceived behavioral control: business owners feel incapable of meeting e-invoicing obligations even when they understand their importance. Consequently, compliance is not merely a matter of willingness but also of perceived capability, and insufficient digital literacy translates directly into weaker compliance intentions.

The second challenge pertains to human resource limitations. MSMEs typically operate with small teams and lack dedicated personnel for taxation and reporting. The responsibility for VAT compliance often rests solely on the owner, who may have a limited understanding of administrative requirements. This leads to frequent filing errors, delayed submissions, and reliance on informal intermediaries. While outsourcing tax administration may provide temporary relief, it can also cause inaccuracies or noncompliance. Within the Slippery Slope Framework (Kirchler et al., 2008; Prinz et al., 2014), such a setting reflects a low-trust, high-coercion compliance environment, where compliance arises primarily out of fear of sanctions rather than voluntary cooperation. This enforcement-driven compliance is fragile, costly, and unsustainable for small firms under financial pressure.

Beyond technical and human resource constraints, these administrative challenges have broader implications for legitimacy. According to Legitimacy Theory (Suchman, 1995), organizations must align with regulatory norms and societal expectations to maintain credibility and stakeholder support. For Jakarta-based MSMEs, noncompliance, whether due to digital illiteracy, reporting errors, or limited human capacity, can diminish legitimacy in the eyes of regulators, customers, and business partners. Conversely, MSMEs that successfully implement e-invoicing demonstrate transparent pricing, timely reporting, and accountability in financial management. This strengthens their pragmatic legitimacy by meeting state requirements, moral legitimacy by being perceived as fair contributors to public finance, and cognitive legitimacy as tax compliance becomes institutionalized as a standard business practice.

These theoretical insights also suggest practical interventions. Enhancing perceived behavioral control through user-friendly e-invoicing platforms, technical training, and precise administrative guidance can empower MSMEs to view compliance as achievable (Ajzen, 1991). Building trust through outreach programs, responsive support, and simplified procedures can shift compliance from coercive to voluntary (Kirchler et al., 2008; Prinz et al., 2014). Finally, reframing compliance not merely as a regulatory duty but as a marker of legitimacy and professionalism can strengthen MSMEs' intrinsic motivation, linking tax compliance to business credibility, competitiveness, and market access.

In Jakarta's competitive urban economy, where regulatory oversight is strong and



consumer expectations are high, legitimacy and compliance are mutually reinforcing. The challenges MSMEs face following the VAT rate increase are not simply technical or procedural, but rooted in deeper behavioral, institutional, and legitimacy-related dynamics. Unless these dimensions are addressed through integrated fiscal, digital, and capacity-building strategies, the VAT increase risks widening compliance disparities and undermining the broader goal of building a resilient and sustainable MSME sector in Indonesia.

Assessment of Price Adjustment Strategies Used by MSMEs to Maintain Competitiveness and Business Continuity

The increase in Value Added Tax (VAT) compels MSMEs in Jakarta to reassess their pricing strategies to preserve competitiveness and business continuity. Three main approaches are typically observed. The first involves a complete price transfer, where MSMEs shift the entire VAT burden to consumers. This strategy is feasible for products with relatively inelastic demand, such as necessities, but may alienate price-sensitive buyers in Jakarta's competitive markets. The second approach is partial price adjustment, in which MSMEs absorb part of the VAT increase to maintain customer loyalty while safeguarding cash flow. This strategy represents a pragmatic balance between short-term survival and long-term market stability. The third approach involves complete VAT absorption, practiced mainly through microenterprises, prioritizing maintaining sales volumes over profit margins. However, continuous absorption without efficiency gains risks eroding long-term financial sustainability. These patterns are consistent with the pricing mechanisms recognized in Government Regulation No. 44 of 2022, which mandates price adjustments following the VAT rate revision from 10% to 11% (Peraturan Pemerintah, 2022).

The selection of a pricing strategy depends on several internal and external factors. Financial capacity determines whether firms can absorb the tax without severe liquidity constraints. Operational efficiency, including lean production, cost control, and supply-chain management, enables MSMEs to minimize the pass-through effect of VAT. Innovation and digitalization are strategic levers for offsetting tax burdens, enhancing value creation, and expanding market access through online platforms. These elements align with the principles of the Resource-Based View (RBV), which posits that firms achieve sustained competitive advantage through resources that are valuable, rare, inimitable, and non-substitutable (VRIN) (Barney, 1991). Within this framework, financial literacy, technological adoption, and adaptive innovation represent critical resources that allow MSMEs to transform compliance obligations into competitive strength.

Behavioral perspectives also offer explanatory insights. According to the Theory of Planned Behavior (Ajzen, 1991), decision-making in pricing is influenced by attitudes, subjective norms, and perceived behavioral control. MSME owners with positive attitudes toward compliance and confidence in managing costs tend to adopt balanced strategies such as partial adjustments. Conversely, due to uncertainty or limited financial capability, low perceived control often results in riskier behaviors, such as absorbing VAT entirely. Similarly, the Slippery Slope Framework emphasizes that both trust and power shape tax compliance: when trust in authorities is high, voluntary compliance emerges; when coercion dominates, compliance becomes fragile and enforcement-dependent (Kirchler et al., 2008; Prinz et al., 2014). For MSMEs, transparent price setting aligned with VAT rules reflects trust-based cooperation, whereas opacity signals coercion-induced compliance.

From a legitimacy perspective, pricing is not merely an economic act but also a social signal. According to Legitimacy Theory (Suchman, 1995), legitimacy comprises pragmatic, moral, and cognitive dimensions. MSMEs that clearly integrate VAT into their pricing enhance pragmatic legitimacy by meeting regulatory requirements, moral legitimacy by being perceived as fair contributors to public finance, and cognitive legitimacy by normalizing compliant



behavior as standard business practice. Transparent pricing thus strengthens institutional credibility and customer trust, which are vital for long-term sustainability.

Recent behavioral evidence further refines this understanding. Kleber et al. (2025) demonstrate that enterprises with a prevention focus, prioritizing duties and obligations, are more influenced by social norms and prefer conservative strategies such as partial price adjustments. Meanwhile, those with a promotion focus, motivated by opportunities and growth, view compliance as a channel for innovation and market expansion. These findings suggest that MSMEs' responses to VAT policy are shaped by structural capacity, motivational orientation, and normative environments.

Thus, MSME pricing adaptations to the VAT increase represent a multidimensional process involving resource constraints, behavioral intentions, legitimacy concerns, and institutional trust. Successful MSMEs combine financial prudence with operational efficiency, align tax compliance with social legitimacy, and use innovation as a buffer against fiscal pressures. As envisioned under Law No. 7 of 2021 on the Harmonization of Tax Regulations, VAT reform aims to enhance efficiency, fairness, and voluntary compliance. For Jakarta's MSMEs, sustainable adaptation requires that pricing strategies evolve beyond reactive cost adjustments toward strategic mechanisms integrating compliance, competitiveness, and legitimacy.

CONCLUSIONS

This study concludes that Micro, Small, and Medium Enterprises (MSMEs) in Jakarta exhibit diverse behavioral responses to the VAT rate increase, shaped by variations in regulatory understanding, resource capacity, and strategic adaptability. Administrative challenges primarily arise from limited tax literacy, insufficient digital readiness, and human resource constraints. Pricing strategies vary across full VAT pass-through, partial adjustment, and complete absorption, each presenting distinct trade-offs between competitiveness and profitability. MSMEs integrating operational efficiency, financial planning, digitalization, and compliance demonstrate greater resilience in adapting to fiscal reforms. These findings confirm that MSME adaptation to the VAT rate increase is not merely an economic adjustment but also a behavioral and institutional process involving legitimacy, trust, and stakeholder expectations.

This study has several limitations. First, it relies exclusively on secondary data from government documents and peer-reviewed publications, without including primary data from surveys or interviews with MSME owners. This limits the depth of contextual understanding, especially concerning the diversity of MSME experiences across Jakarta's various sectors and sub-regions. Second, the literature review covers the 2021-2025, potentially excluding earlier policy developments or long-term behavioral patterns. Third, the geographic focus on Jakarta provides strong regional specificity but limits the generalizability of the findings to MSMEs in other provinces with different institutional frameworks, consumer behaviors, and infrastructure readiness levels.

Future research is encouraged to collect primary data through surveys, interviews, or case studies to capture the lived experiences of MSMEs in fulfilling VAT obligations. Comparative studies across different regions of Indonesia could further illuminate how geographic, infrastructural, and cultural factors influence compliance and pricing behavior. Moreover, applying quantitative techniques such as regression analysis or structural equation modeling (SEM-PLS) would enable empirical measurement of relationships between tax literacy, digital capacity, pricing strategies, and business sustainability. Future research may also investigate the moderating roles of governance quality, fiscal incentives, or digital policy interventions in strengthening MSME resilience under evolving taxation regimes.

Several strategic measures are recommended for the Directorate General of Taxes (DGT).



First, simplify VAT reporting procedures and develop more accessible, user-friendly e-invoicing platforms tailored to MSMEs with limited digital literacy. Second, strengthen tax education and outreach initiatives through participatory, community-based approaches to ensure equitable access to information and technical training across all Jakarta districts. Third, enhance trust-building and service quality by promoting fairness, transparency, and accountability—consistent with the Slippery Slope Framework, to shift compliance behavior from coercive to voluntary. Fourth, targeted incentives and transitional support mechanisms should be introduced, such as reduced compliance costs, training subsidies, or digitalization grants, to facilitate MSME integration into the VAT system. Finally, foster collaboration among the DGT, local governments, cooperatives, and MSME associations to build a sustainable ecosystem in which tax compliance is perceived not only as a legal obligation but also as a marker of legitimacy, competitiveness, and long-term sustainability.

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