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BUSINESS ADMINISTRATION PRACTICES AND THEIR CONTRIBUTION TO TAX COMPLIANCE AMONG MSMES: A QUALITATIVE STUDY

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Abstract
Micro, Small, and Medium Enterprises (MSMEs) contribute more than 60% of Indonesia's gross domestic product, yet their tax compliance remains low: in 2024, only 27.96% of non-employee individual taxpayers, the group that includes most MSME owners, filed their annual income tax return. This study aims to identify the forms of business administration practices adopted by MSME owners, analyze their contribution to tax compliance, and explore the inhibiting and supporting factors involved. A qualitative case study bounded by place (Jakarta Pusat), time (interviews from March to June 2026), and activity (record-keeping and the fulfilment of tax obligations for tax year 2025) was employed, using semi-structured in-depth interviews with ten purposively selected MSME informants. The analysis rests on interview data only. Findings reveal three patterns of administrative practice: informal, semi-formal, and digital record-keeping, each associated with a different level of compliance capability according to the informants' accounts. Informants applying digital recording systems described greater consistency in tax reporting than those relying on informal methods. Key barriers include limited basic accounting literacy and heavy operational workloads, while government assistance programs and access to formal financing serve as effective motivational drivers. This study concludes that MSME tax compliance appears to be shaped by compliance capability, which is determined by the quality of internal business administration practices. Strengthening foundational administrative capacities is recommended as a prerequisite to digital tax transformation policies.
Keywords: Business Administration Practices; MSMEs; Tax Compliance; Voluntary Tax Compliance

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are consistently recognized as the foundation of the national economy in various developing countries, including Indonesia. With the number of business units reaching around 66 million in 2023–2024, this sector contributes more than 60% to the national Gross Domestic Product (GDP) while absorbing up to 97% of the total labor force (Fadhilatunisa et al., 2025; Tohari et al., 2026). The magnitude of this contribution makes MSMEs a strategic subject in the national tax system. However, the level of tax compliance in this sector reflects contradictory conditions. The Directorate General of Taxes (DJP) does not publish a single compliance rate for MSMEs as a whole; the official statistics consulted for this study report compliance by taxpayer category. The nearest official proxy is formal compliance, defined by DJP as the ratio of annual income tax returns (SPT Tahunan) received in a tax year to the number of registered taxpayers obliged to file at the beginning of that year. On this measure, only 27.96% of non-employee individual taxpayers, a category that includes most MSME owners but also other self-employed persons, filed their return in 2024 (1.37 million of 4.92 million registered), compared with 57.59% of corporate taxpayers (DDTCNews, 2025), and overall formal compliance fell from 85.75% in 2024 to 76.07% in 2025 (DDTCNews, 2026). The range of 15–18% reported by Muttiwijaya et al.

(2025) is therefore treated in this study as a single-study estimate rather than an official DJP statistic: its basis (formal or material compliance; registered taxpayers or all business units) could not be matched to a published DJP figure, so it is not used as a national benchmark. Formal compliance statistics also say nothing about material compliance, that is, whether the tax due was calculated correctly, which is the dimension that business administration practices are most likely to affect. The gap between the large economic role of MSMEs and their low formal tax compliance represents a structural paradox that requires an in-depth and comprehensive study.

More specifically, the latest literature identifies that the low tax compliance of MSMEs is not solely due to fiscal or tariff factors, but is also significantly influenced by weak administrative practices at the business level. Khan & Tjaraka (2024) emphasized that taxpayers' perceptions of the fairness of the tax system and limited understanding of regulations, especially Government Regulation Number 55 of 2022, are associated with the tax compliance behavior of MSMEs in Indonesia (Peraturan Pemerintah, 2022). That regulation was later amended by Government Regulation Number 20 of 2026, which is discussed in the Regulatory Context section. In a broader context, Ndlovu & Schutte (2024) used a qualitative approach and found that small business actors often face technical challenges stemming from administrative complexity, including the inability to compile adequate financial records as a prerequisite for fulfilling invoice-based tax obligations such as value-added tax. This condition shows that weak business administration practices, including bookkeeping, separation of business finances from personal finances, and adherence to reporting procedures, inherently shape the tax compliance capacity of MSME actors.

The research gap addressed in this study is that most previous research has examined the determinants of MSME tax compliance from the perspective of a single variable or quantitative approach, such as tax knowledge, sanctions, or incentives. These studies often ignore the interactional dynamics between day-to-day business management practices and tax compliance behaviors (Fadhilatunisa et al., 2025). Meanwhile, research with a qualitative design that specifically explores how business administration practices, including financial management, transaction recording, and internal governance contribute to the formation of MSME tax compliance capacity is still very limited, especially in the Indonesian context. In addition, the majority of existing studies tend to place tax compliance as a dependent variable influenced by external factors, without delving deeply into the internal adaptation process of MSME actors to the applicable tax system.

The novelty of this research lies in three aspects. First, this study places business administration practices as the main unit of analysis in understanding tax compliance, not just a control variable. Second, the use of a qualitative approach allows researchers to uncover causal mechanisms that cannot be captured through quantitative instruments. Third, this research produces an inductive conceptual framework based on the real experience of MSME actors, which can be used as a basis for more contextual and applicative policy interventions.

Based on the above background description, this study formulates three main problems that are the focus of the study. First, what are the forms of business administration practices applied by MSME actors in managing their daily business operations? Second, how do these business administration practices contribute to the ability of MSME actors to fulfill their tax obligations? Third, what are the factors that hinder or support MSME actors in integrating good business administration practices as a foundation for tax compliance?

In line with the formulation of the problem that has been determined, this research has three main objectives. First, identify and describe the forms of business administration practices applied by MSME actors in the management of their daily business operations. Second, to analyze in depth the contribution of business administration practices to the ability of MSME

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actors to fulfill their tax obligations. Third, exploring the inhibiting and supporting factors that affect the ability of MSME actors to integrate good business administration practices as a foundation for voluntary and sustainable tax compliance.

This research provides theoretical benefits in the form of developing a new conceptual framework that integrates the business administration dimension into the study of MSME tax compliance, while enriching the scientific discourse on voluntary tax compliance in developing countries. Practically, the findings of this study are expected to be a reference for the Directorate General of Taxes and policy makers in designing an administrative capacity building program for MSMEs that is oriented towards strengthening tax compliance. For MSME actors, this study provides an understanding that good business governance is not only relevant for business growth, but also a fundamental prerequisite for fulfilling tax obligations voluntarily and sustainably.

LITERATURE REVIEW

Micro, Small, and Medium Enterprises (MSMEs) and Their Role in the Economy

MSMEs are business entities that have consistently become the backbone of the economy in developing countries, including Indonesia. With the number of business units continuing to grow to around 66 million in 2023–2024, this sector contributes more than 60% to the national GDP while absorbing up to 97% of the total available workforce. However, the magnitude of the economic role is not always directly proportional to the administrative capacity possessed by the actors. Most MSME actors operate with a simple organizational structure, limited human resources, and a financial management system that has not been standardized. Nirwana et al. (2026) emphasized that although the government has presented various digital tax policies designed to simplify the tax process, the low administrative capacity of MSME actors is the main obstacle that makes these various facilities not able to be utilized optimally. This condition shows that the issue of MSME tax compliance cannot be separated from the internal governance capacity owned by each business actor.

Business Administration Practices in the Context of MSMEs

Business administration practices refer to the entire business operational management process which includes financial recording (bookkeeping), separation of business finances from personal finances, preparation of income statements, management of transaction documents, and compliance with reporting procedures set by regulators. In the context of MSMEs, these practices are often carried out informally and inconsistently. Hambali & Rizqi (2025) found that the transformation of MSMEs towards a more structured accounting information system has been proven to improve the accuracy of financial statements and accelerate the availability of information needed to fulfill tax obligations. The study underlined that MSME actors who have adopted digital-based recording systems, albeit on a simple scale, show consistently better tax compliance rates than those who still rely on manual recording. That is, high-quality business administration practices implemented by MSME actors are a fundamental prerequisite so that various tax policy stimuli can have a real impact on their compliance behavior.

Tax Compliance and Its Theoretical Basis

Tax compliance is defined as the readiness and willingness of the taxpayer to fulfill all tax obligations in accordance with the provisions of the applicable regulations, either voluntarily (voluntary compliance) or under coercion (enforced compliance). Compliance is also commonly distinguished into formal compliance, namely the timely submission of tax returns and payments, and material compliance, namely the complete and accurate calculation of the tax due in line with the substance of tax law. This study considers both: the timeliness of payment and reporting (formal) and the accuracy of the tax base calculated by informants (material). The relevant theoretical foundations in this study are Slippery Slope Framework

(SSF) which explains that tax compliance is influenced by two main dimensions, namely the trust of taxpayers in the tax authorities and the enforcement power exercised by the authorities. In the perspective of SSF, voluntary compliance is more determined by the level of trust, whereas enforced compliance is influenced more by the power of sanctions. The relevance of this theory in the context of MSMEs lies in the fact that small business actors tend to comply with tax obligations voluntarily when they have sufficient knowledge and a positive perception of the applicable tax system. Adzany & Mulyandini (2025) confirmed that understanding of accounting and of tax provisions together have a significant effect on MSME tax compliance, where business actors who have higher accounting literacy tend to more easily interpret tax regulations and execute reporting obligations in a timely manner.

The Relationship Between Business Administration Practices and Tax Compliance

The relationship between business administration practices and MSME tax compliance is causal and mutually reinforcing. MSME actors who have an organized financial recording system have a greater ability to accurately calculate the basis for tax imposition, prepare financial statements as supporting documents for reporting, and meet deadlines set by tax authorities. On the contrary, the absence of structured recording is at the root of various technical errors in reporting that lead to unintentional non-compliance. Hambali & Rizqi (2025) emphasized that the speed of information generated from a good accounting system has a strategic role in supporting more precise and accurate tax decision-making. On the other hand, Nirwana et al. (2026) reminded that without policy interventions that fundamentally strengthen the business administration capacity of MSME actors, tax digitalization risks only being enjoyed by the segment of business actors who are administratively ready, while the most needy groups remain behind. This condition confirms that tax compliance is not solely a matter of willingness but also of capability, which is directly shaped by the quality of business administration practices carried out by MSME actors on a daily basis.

Regulatory Context of MSME Taxation in Indonesia

MSME taxation in Indonesia is governed mainly by Law Number 7 of 2021 on the Harmonization of Tax Regulations (Undang-Undang, 2021) and Government Regulation Number 55 of 2022, which was amended by Government Regulation Number 20 of 2026 (PP 20/2026) and has been in force since its promulgation on 22 April 2026 (Peraturan Pemerintah, 2022, 2026; Hidayat, 2026). Under the current provisions, a final income tax at the rate of 0.5% of gross turnover can be used by resident individual taxpayers, single-founder limited liability companies (perseroan perorangan), and domestic cooperatives whose gross turnover does not exceed IDR 4.8 billion in a tax year. For individual taxpayers, the first IDR 500 million of turnover in a tax year is not subject to income tax. The time limit previously placed on the use of the 0.5% rate has been removed for individuals and single-founder companies, but not for cooperatives, which may use the facility for a maximum of four tax years from the year they are registered (Peraturan Pemerintah, 2026). Partnerships (CV), firms, and ordinary limited liability companies registered after the amendment can no longer use the final rate, while taxpayers already using the facility keep it until their original period ends (Hidayat, 2026).

PP 20/2026 also narrows who may use the final rate, which makes accurate turnover records more consequential. The facility is not available to taxpayers who have received certain tax facilities, such as a tax holiday or tax allowance, or to taxpayers whose aggregate gross turnover has exceeded the threshold, and income from services related to independent work (pekerjaan bebas) is excluded from the scheme (Peraturan Pemerintah, 2026). Turnover is also assessed on its economic substance. For spouses who hold separate property or who exercise their tax rights and obligations separately, the gross turnover of the husband, the wife, and every single-founder company established by either of them is combined, and the income of a minor child is included in the combination. If the combined figure exceeds IDR 4.8 billion in a tax

year, the individuals and all of their businesses are no longer entitled to the final rate in the following tax years (Peraturan Pemerintah, 2026; Hidayat, 2026). An MSME actor can therefore only know whether the facility still applies if turnover is recorded completely and consistently across all related businesses, which is the core of the business administration practices examined in this study.

Because the informants' obligations relate to tax year 2025, the transitional provisions in Article II of PP 20/2026 are relevant. The regulation took effect on 22 April 2026, after tax year 2025 had ended, and individual taxpayers whose use of the facility under Government Regulation Number 55 of 2022 ended in tax year 2024 may still use it for tax years 2025 and 2026 (Peraturan Pemerintah, 2026). Whether other provisions apply retroactively was not assessed in this study. This article therefore treats Government Regulation Number 55 of 2022 as the regime in force when the informants' transactions took place, and Government Regulation Number 20 of 2026 as the latest regulatory context.

The final income tax is paid monthly, no later than the 15th of the following month, and is reported in the annual income tax return (SPT Tahunan) rather than in a separate monthly return (Peraturan Pemerintah, 2022, 2026). Since 1 January 2025, these services have been delivered through Coretax, the DJP core tax administration system. Because the scheme is based on gross turnover, the quality of turnover recording determines whether the tax base is calculated correctly, which links business administration practices directly to the capability to comply.

METHODS

This research used a qualitative approach with a case study design to gain an in-depth understanding of how business administration practices contribute to the tax compliance of MSME actors. A qualitative approach was chosen because the phenomenon is complex, contextual, and cannot be reduced to numbers. Mtisi (2022) affirmed that a case study is an appropriate strategy when the researcher intends to explore a bounded system in depth, with the boundaries of the case defined by time, place, activity, and context. This design allows the researchers to capture the nuances of how MSME actors manage business administration while fulfilling their tax obligations, which a quantitative approach cannot adequately achieve.

The case was bounded as follows. In terms of place, the study was conducted in Jakarta Pusat. In terms of time, interviews were carried out from March to June 2026, and the tax obligations discussed relate to tax year 2025. In terms of activity, the case covers the informants' business administration practices (financial recording, separation of business and personal finances, transaction documents, and turnover recapitulation) and the fulfilment of their tax obligations, as described by the informants. In terms of context, the tax obligations discussed relate to tax year 2025, so the regime in force when the informants' transactions took place was the final income tax for MSMEs under Government Regulation Number 55 of 2022; the latest provisions, Government Regulation Number 20 of 2026, took effect on 22 April 2026 and are discussed as regulatory context. The case is therefore the administrative practice and tax compliance of registered MSME actors in Jakarta Pusat during that period, not the MSME sector in Indonesia as a whole.

Primary data were collected through in-depth interviews using a semi-structured interview guide. This technique was chosen because it allows flexibility in obtaining richer and more contextual information from informants while keeping the exploration in line with the research focus. In line with this, Ndlovu and Schutte (2024) showed that semi-structured interviews within an interpretivist paradigm effectively uncover the complex challenges faced by small businesses in fulfilling their tax obligations, including their subjective and situational aspects. Informants were selected through purposive sampling, with the main criteria that the

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informant is an MSME actor who has operated actively for at least two years, has registered tax obligations, and is directly involved in managing business administration. The ten informants come from different business sectors (culinary, laundry, motorcycle workshop, photography, textile trade, and others) and apply different administrative patterns. This variation is reported as a characteristic of the informants (Table 1), not as a planned sampling strategy; the analysis therefore focuses on the administrative practices and compliance experiences that recur across them.

Data saturation was not formally determined or documented during data collection, so this study does not claim that saturation was reached at any particular informant. With ten informants from heterogeneous sectors, the findings are presented as an exploratory account of the patterns that appeared in these interviews, and this is acknowledged as a methodological limitation.

Data were analyzed inductively using thematic analysis through data reduction, data display, and conclusion drawing. The analysis is based solely on the interview data. No business documents were examined and no field observation was conducted; the findings therefore reflect the informants' own accounts and were not verified against independent records, which is a further limitation of this study.

RESULTS AND DISCUSSION

Research Results

Research Informant Profile

This research involved ten informants who are active MSME actors with diverse business sector backgrounds. All informants were selected based on the purposive sampling criteria that had been set. The full characteristics of the informants are presented in Table 1 below.

Table 1. Research Informant Profile

No.	Code	Type of Business	Length of Operation	Tax Status	Administrative Management
1	INF-01	Culinary	5 years	Registered NPWP	Manual
2	INF-02	General Trading	7 years	Registered NPWP	Manual
3	INF-03	Laundry Services	3 years	Registered NPWP	Manual
4	INF-04	Convection	6 years	Registered NPWP	Mixed
5	INF-05	Grocery Store	4 years	Registered NPWP	Manual
6	INF-06	Motorcycle Workshop	8 years	Registered NPWP	Mixed
7	INF-07	Printing	5 years	Registered NPWP	Digital
8	INF-08	Catering	4 years	Registered NPWP	Manual
9	INF-09	Photography Services	3 years	Registered NPWP	Digital
10	INF-10	Textile Trade	9 years	Registered NPWP	Mixed

Source: Primary data from interviews, processed (2026)

Table 1 shows that half of the informants (five of ten) still rely on manual recording in managing their business administration, three use a mixed system, and two have switched to a digital system.

Forms of Business Administration Practices Applied by MSME Actors

Based on the results of in-depth interviews, it was found that the business administration practices applied by the informants varied greatly in terms of completeness and consistency. INF-02 stated that "I record income and expenses in my notebook every day, but it is not separated between business money and household money." Similar statements were also submitted by INF-05 and INF-08 who admitted that they had never formally prepared an income statement. On the other hand, INF-07 and INF-09, who use a digital system, reported more regular transaction recording through simple financial applications. INF-04 stated that the separation of business accounts from personal accounts was only carried out after receiving assistance from the local cooperative office. Overall, the business administration practices of informants can be categorized into three main patterns, namely informal recording, semi-formal recording, and digital-based recording.

The Contribution of Business Administration Practices to Tax Compliance

The results of the interviews revealed that there is a close relationship between the quality of business administration records and the ability of informants to fulfill tax obligations. INF-07, which has implemented digital recording, stated that "because transactions are neatly recorded, it is easier for me to calculate turnover and report taxes every month." The statement does not specify whether reporting refers to turnover calculation, tax payment, or filing; under the prevailing rules the final income tax is paid monthly but reported in the annual return, so it is not read here as evidence of monthly payment or filing. On the other hand, INF-01 admitted having difficulty meeting the electronic filing deadline because there was no clear recapitulation of income. INF-06 stated that unclear recording led to a miscalculation of the basis for imposing tax. These findings suggest that informants with more structured administrative practices tend to exhibit more consistent and timely tax reporting behavior. The pattern of contribution is presented briefly in Table 2 below.

Table 2. Patterns of Business Administration Practices Contribution to Tax Compliance

Administrative Pattern	Number of Informants	Timely Tax Reporting	Main Obstacles
Informal Recording	5	Inconsistency	No turnover recapitulation
Semi-Formal Recording	3	Quite consistent	Financial separation is not optimal
Digital Recording	2	Consistent	Application literacy limitations

Source: Primary data from interviews, processed (2026)

Table 2 shows that informants with informal records tend to be inconsistent in tax reporting, while informants with digital records show better levels of compliance despite still facing challenges in the technology literacy aspect.

Factors Inhibiting and Supporting the Integration of Business Administration as a Foundation for Tax Compliance

An exploration of factors that affect informants' ability to integrate good business administration practices resulted in two clusters of findings. The most dominant inhibiting factors include limited knowledge of basic accounting, the absence of a firm separation between business and personal finance, and lack of access to relevant tax training. INF-03 said that "I never studied accounting, so I didn't know what to record for tax purposes." INF-10 added that the pressure of daily operations often causes administrative records to be neglected. On the other hand, the supporting factors identified include participation in government assistance programs, the use of smartphone-based financial applications, and internal motivation to gain

access to formal capital that requires financial reports. INF-09 emphasized that the encouragement to apply for People's Business Credit (Kredit Usaha Rakyat, KUR) was the starting point of their awareness in organizing business administration in a more orderly and structured manner.

Forms of Business Administration Practices Applied by MSME Actors

The findings of the study indicate that MSME actors apply business administration practices in three different patterns, namely informal, semi-formal, and digital-based recording. Informal record-keeping is the most common pattern, with five of the ten informants still relying on simple notebooks with no firm separation between business and personal finances. This condition is in line with the findings Ainiyah & Febriani (2023) which emphasizes that the low knowledge of taxpayers about the tax administration system directly has an impact on the weak internal financial governance of MSME actors. When the foundation of record-keeping is not structured, business actors not only have difficulty in managing cash flow, but also lose the basic ability to identify the true amount of tax liability.

Three informants with a semi-formal pattern have shown better awareness, characterized by efforts to separate business and personal accounts and the preparation of more consistent transaction records, although they have not yet reached formal financial reporting standards. This progress is generally triggered by interaction with financial institutions or government assistance programs. Aryawan et al. (2022) noted that the modernization of the tax administration system, including e-registration and e-filing, has a significant impact only when business actors have adequate administrative readiness at the internal level. This reinforces the argument that improving external systems without strengthening the capacity of internal business administration will not result in substantial behavioral change. Meanwhile, two informants with digital-based record-keeping showed the most organized practices, using a simple financial application to record all transactions in a systematic, real-time manner, which ultimately facilitates the process of preparing financial statements and calculating tax liabilities. Purwati (2022) confirms that the implementation of e-filing provides significant convenience in the reporting process, but its effectiveness is highly dependent on the availability of accurate and organized transaction data from the side of business actors.

The Contribution of Business Administration Practices to MSME Tax Compliance

The results of the analysis of interview data consistently show that the quality of the business administration practices owned by MSME actors is positively associated with their tax compliance. Informants who implement digital recording described meeting their tax obligations more consistently because accurate turnover recapitulation was available as a basis for calculation. In contrast, informants with informal records have difficulty meeting e-filing deadlines due to the unavailability of adequate transaction data. Akbar et al. (2025) found that there was a positive and significant relationship between the use of electronic tax reporting systems and MSME compliance, with a correlation coefficient of 0.856, a finding that underscores that access to digital systems alone is not enough without being balanced by solid business administration capacity.

Further, these findings show that the contribution of business administration practices to tax compliance is not only direct, but also works through intermediary mechanisms in the form of compliance capability, namely the actual ability of MSME actors to execute tax reporting obligations technically. Informants who miscalculate the basis for imposing taxes, as revealed in INF-06, are a tangible manifestation of weak administrative capacity that cannot be overcome only through tariff simplification or the provision of fiscal incentives. Susilo & Syahdan (2022) affirm that e-filing, e-billing, and tax incentives do affect MSME compliance, but this influence will be stronger if business actors have an organized recording system as a basic prerequisite. Thus, structured business administration practices serve as enabling

condition which determines the extent to which various tax policies can be optimally benefited by MSME actors.

The patterns identified in this study also emphasize that tax compliance is not just a matter of intention but also of capability. MSME actors who have the motivation to comply, but are not supported by an adequate recording system, will still experience failures in fulfilling tax obligations. Ariani & Giovani (2024) found that the implementation of e-registration significantly increased the compliance of MSME taxpayers, while e-filing and e-billing did not show a partially significant impact, a finding that can be explained by variations in business administration capacity among the business actors who were the subject of his research.

Factors Inhibiting and Supporting the Integration of Business Administration as a Foundation for Tax Compliance

Exploration of the factors that determine the ability of MSME actors to integrate good business administration practices resulted in two opposing clusters of findings. In the inhibitory cluster, the limitation of basic accounting literacy is the most dominant factor. The majority of informants with informal record-keeping patterns have never received formal accounting or tax training, so they do not understand the elements of record-keeping that are relevant for tax reporting purposes. Putri et al. (2022) indicates that the application of the e-billing system does not necessarily increase MSME compliance, and one of the factors causing it is the lack of tax socialization that reaches the practical needs of business actors in the field. This finding confirms that MSME tax compliance barriers stem from a deeper layer than just ignorance of technical procedures, namely from the weak foundation of business administration knowledge that should be built long before tax obligations arise.

Another inhibiting factor identified is the high daily operational load which causes administrative recording to be prioritized below production and marketing activities. This condition is exacerbated by the unavailability of special administrative personnel in the micro-scale business environment, so that all managerial functions are concurrently carried out by business owners. Salim et al. (2025) underline that Coretax creates new pressure in the form of administrative sanctions for late tax invoices, a risk most likely to befall MSME actors whose recording system is still weak and does not have an early-warning mechanism for reporting obligations that fall due.

On the supporting side, government assistance programs and motivation to access formal capital have proven to be effective catalysts in encouraging MSME actors to improve administratively. Informants who have received assistance from relevant agencies show measurable improvement in administrative practices in a relatively short time. Ainiyah & Febriani (2023) confirmed that tax socialization, positioned as a moderating variable, is able to strengthen the relationship between taxpayers' knowledge and their level of compliance. These findings indicate that educational interventions and direct assistance have greater potential in increasing the administrative capacity of MSME businesses than approaches that are purely regulatory and punitive. Nurdina et al. (2025) added that trust, which is built through transparent and responsive communication is a key factor in forming voluntary and sustainable compliance behavior, a principle that is also relevant in the context of the relationship between tax authorities and MSME actors as taxpayers.

CONCLUSION

This study succeeded in identifying that the business administration practices of MSME actors are divided into three different patterns, namely informal, semi-formal, and digital-based recording. Half of the informants still operate with simple and non-standardized record-keeping, reflecting limited administrative capacity, which this study identifies as one source of low tax compliance in this sector. The contribution of business administration practices to tax

compliance appears to be fundamental and to work through the mechanism of compliance capability. MSME actors who manage record-keeping in a structured manner show higher consistency in tax reporting, while those who rely on informal record-keeping tend to experience technical failures in fulfilling tax obligations despite having the intention to comply. This finding confirms that tax compliance is not solely a matter of willingness, but is highly determined by the administrative capacity possessed by business actors. The main inhibiting factors identified include the lack of basic accounting literacy, the absence of separation of business finance from personal finance, and high daily operational burden. Meanwhile, government assistance programs and motivation to access formal capital emerged as effective supporting factors in encouraging sustainable improvement of business administration practices.

Suggestions

Based on these findings, this study recommends that the Directorate General of Taxes and policy makers design a program to strengthen the capacity of MSME business administration that is integrated with tax education, not just simplifying technical tax procedures. Basic bookkeeping training needs to be prioritized as an upstream intervention before encouraging the adoption of digital taxation systems. This is especially relevant because Government Regulation Number 20 of 2026 keeps the 0.5% final income tax for individual MSME taxpayers without a time limit and retains the IDR 500 million non-taxable turnover, so the facility can be applied correctly only when turnover is recorded accurately. The findings come from ten informants in Jakarta Pusat, rest on interview data only (no document review or field observation), and data saturation was not formally assessed; they are therefore exploratory, not statistically generalizable and should be transferred to other settings, especially other sectors, with caution. For further research, it is recommended to expand the scope of the area and number of informants to improve the transferability of findings, as well as explore a longitudinal approach to measure the impact of administrative interventions on MSME tax compliance in the long term.

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