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# EARLY EVALUATION OF THE EFFECTIVENESS OF FINAL INCOME TAX EXPENDITURE FOR MSMES AS A PUBLIC POLICY INSTRUMENT: IMPLEMENTATION OF GOVERNMENT REGULATION NO. 20 OF 2026 IN INDONESIA

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**Abstract**
This study conducts an early policy evaluation of Indonesia's final income tax expenditure for micro, small, and medium enterprises (MSMEs) following Government Regulation No. 20 of 2026. Publicly available secondary data up to 13 August 2026 are assessed using the OECD-DAC criteria, while causal evidence is classified using an adapted Maryland Scientific Methods Scale. In 2024, the expenditure reached IDR 27.551 trillion for 543,908 beneficiaries, or an arithmetic mean of IDR 50.65 million per taxpayer, although beneficiary-level distribution is unavailable. A benchmark simulation for an individual taxpayer with IDR 1.5 billion turnover shows tax expenditure of IDR 25.90 million at a 20% profit margin, IDR 3.40 million at 10%, negative IDR 3.95 million at 5%, and negative IDR 5.00 million at a 2% margin or loss. Thus, benefits rise with profitability and resemble an upside-down subsidy, while low-margin firms may face negative tax expenditure. The option to elect ordinary taxation mitigates this problem but shifts the constraint toward tax literacy and bookkeeping costs. Policy relevance and simplicity are only partially supported: tax is not identified as the primary MSME constraint, and expanded turnover aggregation and cumulative threshold tracking add administrative complexity. The shared IDR 4.8 billion income-tax and value-added-tax threshold also creates a double notch. Formalisation, compliance, growth, additionality, efficiency, and long-term impact remain unestablished. The study recommends distributional reporting, post-reform projections, integrated beneficiary data, and coordinated evaluation of income-tax and value-added-tax thresholds.
**Keywords**: Distributional incidence; Final income tax; MSMEs; Policy evaluation; Tax expenditure.

## INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are central to Indonesian public policy because of their role in employment, household resilience, and the diffusion of economic opportunity. Yet the *Profil Industri Mikro dan Kecil 2024* identifies access to capital, human resources and managerial capacity, technology use, and business legality as major constraints (Badan Pusat Statistik, 2025). Tax burden is not identified as the most binding constraint. Consequently, preferential taxation may still be useful, but its relevance to the principal problems of micro and small firms is indirect and must not be assumed from the size of the sector alone.

Indonesia has used a final income tax on specified gross turnover as a simplification instrument since Government Regulation (GR) No. 46 of 2013. The rate was reduced from 1% to 0.5% under GR No. 23 of 2018, which also introduced time limits and an election to use the ordinary income-tax regime. Law No. 7 of 2021 on Harmonisation of Tax Regulations inserted Article 7(2a) into the Income Tax Law, exempting the first IDR 500 million of annual business turnover of individual taxpayers from income tax. GR No. 55 of 2022 implemented that provision. On 22 April 2026, GR No. 20 of 2026 narrowed new eligibility to individuals, single-person limited liability companies, and cooperatives, broadened turnover aggregation, and removed the time limit for individuals and single-person companies while preserving transitional rights for existing beneficiaries (Pemerintah Republik Indonesia, 2013, 2018, 2021, 2022, 2026).

From a public-finance perspective, the regime is not merely a low tax rate. The 2024 Indonesian Tax Expenditure Report classifies it as a preferential rate that deviates from the

ordinary income-tax base. The reported expenditure reached IDR 27.551 trillion in 2024 for 543,908 taxpayers, and the report projected IDR 32.762 trillion for 2026 (Kementerian Keuangan Republik Indonesia, 2025a, 2025b). Such a fiscal cost should be evaluated in the same spirit as direct spending: who receives the benefit, what additional behaviour it produces, and whether its social value exceeds its opportunity cost (Beer et al., 2022; Surrey, 1973).

The benchmark is consequential. The current report uses ordinary taxable income and Article 17 rates as the personal and corporate income-tax benchmark, while it treats the net-income calculation norm for certain individuals as an administrative simplification that belongs to the benchmark rather than a tax expenditure (Kementerian Keuangan Republik Indonesia, 2025a). Earlier practice was different: the OECD reported that Indonesia had treated preferential SME taxation as part of the benchmark system in 2019 (OECD, 2020). This history shows that tax-expenditure estimates are not purely mechanical; they depend on a normative counterfactual and on assumptions regarding the profit that would have been reported under ordinary taxation.

GR No. 20 of 2026 also entered into force too recently for a credible impact evaluation. Public data do not yet link beneficiary status to business registration, income-tax filing, value-added-tax (VAT) registration, credit, employment, survival, or productivity over time. The 2025-2027 projections in the 2024 report were published on 31 December 2025, before the new regulation, and therefore represent a pre-reform baseline rather than a forecast of the new legal design. An early policy evaluation is therefore more defensible than a claim of causal impact.

Existing Indonesian studies commonly analyse rate perceptions, tax knowledge, administrative modernisation, and compliance at the taxpayer or tax-office level (Anggraeni & Lenggono, 2021; Kumaratih & Ispriyarso, 2020; Sianipar & Sitompul, 2022). These studies are valuable but rarely treat the regime as public expenditure delivered through the tax system or examine its distributional incidence against the ordinary regime. The official post-implementation review provides tax-filing, bunching, and profitability evidence for the pre-2026 regime, but its findings require careful interpretation because they concern historical users, predominantly corporate taxpayers in the performance analysis, and do not establish outcomes under GR No. 20 of 2026 (Kementerian Keuangan Republik Indonesia, 2025a).

This study contributes in three ways. First, it evaluates the distribution of tax expenditure by comparing final tax with the Article 17 benchmark after the non-taxable income allowance (PTKP), rather than merely dividing final tax by profit. Second, it replaces non-replicable strength labels with the OECD-DAC criteria and the Maryland Scientific Methods Scale (SMS), applying the latter only to causal outcome evidence. Third, it integrates the interaction between the IDR 4.8 billion income-tax threshold and the identical VAT small-business threshold. The research questions are: (1) how did the design and fiscal magnitude of the final income-tax expenditure evolve through GR No. 20 of 2026; (2) what does benchmark-based analysis imply for targeting, equity, relevance, and value for money; and (3) what evidence and data architecture are required to assess effectiveness, efficiency, impact, and sustainability?

## LITERATURE REVIEW

### Tax Expenditure Benchmarks, Presumptive Regimes, and Measurement Uncertainty

Tax expenditures are deviations from a benchmark tax system that reduce revenue through exemptions, deductions, credits, deferrals, or preferential rates. Although they do not appear as cash outlays, they allocate public resources and should be reported, scrutinised, and compared with alternative spending instruments (International Monetary Fund, Fiscal Affairs Department, 2019; OECD, 2010). Revenue forgone is an accounting estimate, not a complete measure of welfare, behavioural additionality, or administrative cost.

Benchmark choice is especially difficult for presumptive taxation. A turnover-based regime can be viewed either as a concession relative to a comprehensive net-income tax or as an integral administrative component for taxpayers whose true profits are costly to verify. Mas-Montserrat et al. (2023) and Wen (2023) describe presumptive regimes as tools for reducing compliance and administration costs, but they also stress that the appropriate rate and threshold depend on profit margins, ordinary tax rates, taxpayer capability, digital infrastructure, and the relationship with the VAT threshold. Under a comprehensive Article 17 benchmark, the benefit rises with counterfactual taxable profit; under a benchmark that treats presumptive taxation as normal, the same regime may generate no tax expenditure. The report must therefore disclose the benchmark and the uncertainty surrounding counterfactual profit.

Indonesia's current report explicitly defines Article 17 rates, taxable income, and annual assessment as the income-tax benchmark. It excludes the Net Income Calculation Norm (Norma Penghitungan Penghasilan Neto, NPPN) from tax expenditure because NPPN is treated as an administrative simplification (Kementerian Keuangan Republik Indonesia, 2025a). The specific MSME item is estimated as ordinary-regime liability minus the final tax paid, withheld, collected, or borne by government, and the report rates the estimate as having medium accuracy and the 2025-2027 projection as having low accuracy (Kementerian Keuangan Republik Indonesia, 2025b). These qualifications are material because the ordinary-regime liability requires an estimate of net profit that may not be observed on a comparable accounting basis.

**Simplification, Formalisation, and Compliance**

Presumptive regimes seek to reduce the high fixed cost of tax compliance faced by small firms. Turnover is easier to observe than profit, and a single proportional rate can reduce calculation and record-keeping requirements. However, simplicity has several layers: the formula may be simple while eligibility, aggregation, cumulative thresholds, filing, and transition rules remain complex. Ferry et al. (2023) find that presumptive taxation can reduce some compliance-cost components for Indonesian individual SMEs, but the evidence also shows that implicit and psychological costs remain relevant. Direct post-2026 measurements are not yet available.

International evidence on formalisation is mixed. Registration reforms and tax reductions can increase entry into formality, but effects are often modest when firms do not perceive sufficient access to credit, markets, procurement, legal protection, or other benefits (Bruhn & McKenzie, 2014; de Mel et al., 2013; Floridi et al., 2020). Brazil's simplified regimes produced positive effects for some firms, but results vary across designs and populations (Fajnzylber et al., 2011; Monteiro & Assunção, 2012; Rocha et al., 2018). Tax compliance likewise reflects trust, enforcement, ability, fairness, and administrative burden, not the statutory rate alone (Alm, 2019; Kirchler et al., 2008).

**Turnover Thresholds, Distribution, and the Income-Tax-VAT Interaction**

A proportional turnover tax is horizontally unequal when profit margins differ. At the same turnover, a high-margin firm receives a larger concession relative to a progressive net-income tax, whereas a low-margin or loss-making firm may pay more than under the benchmark. This pattern can resemble an *upside-down subsidy*: the fiscal benefit increases with the beneficiary's capacity to generate taxable profit (Surrey, 1973). The distributional question is therefore not simply whether effective tax burdens differ, but whether public support is concentrated among firms that would have paid the most under the ordinary regime.

The election to use ordinary taxation moderates this problem. A low-margin taxpayer can prospectively choose Article 17 taxation, including bookkeeping or an applicable NPPN method, subject to notification and administrative requirements (Kementerian Keuangan Republik Indonesia, 2023). Negative tax expenditure is therefore not wholly unavoidable. The

remaining policy issue becomes whether taxpayers possess the information, bookkeeping capacity, and cash to choose and comply with the regime that is economically appropriate.

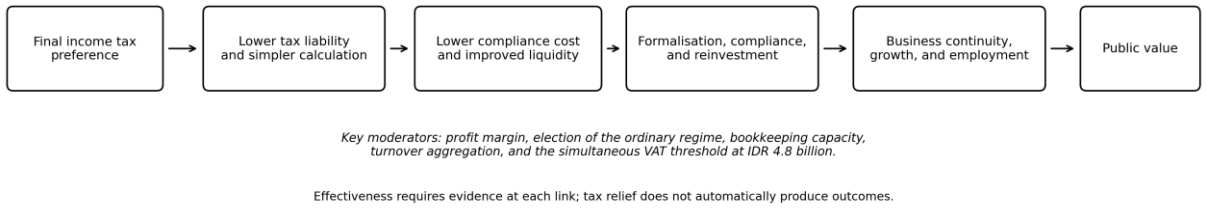
Thresholds create discontinuous incentives. Bunching theory predicts adjustments in real activity or reported turnover when crossing a threshold causes a discrete tax change (Kleven & Waseem, 2013; Saez, 2010). In Indonesia, IDR 4.8 billion is simultaneously the ceiling for the final income-tax regime and the small-business threshold for mandatory VAT registration. A firm that crosses the threshold generally moves to ordinary income taxation and begins VAT obligations from the following year under Minister of Finance Regulation No. 164 of 2023. The resulting double notch can strengthen incentives to bunch, split firms, or under-report, and it raises the cost of graduation beyond income tax alone. Wen (2023) specifically identifies coordination with the VAT threshold as a core design choice for turnover taxes.

**Evaluation Framework**

The OECD-DAC framework evaluates public interventions through six criteria: relevance, coherence, effectiveness, efficiency, impact, and sustainability (OECD, 2019, 2021). The criteria are lenses and should not be converted mechanically into a single score. Equity is examined across relevance, effectiveness, efficiency, and impact, while evaluability is assessed as a cross-cutting condition.

For causal claims, this study adapts the Maryland Scientific Methods Scale. Level 1 covers descriptive cross-sectional or before-after evidence without a comparison group; Level 2 adds controls or matching without a credible counterfactual; Level 3 uses a plausible comparison group and pre-post design, such as difference-in-differences; Level 4 exploits quasi-random assignment; and Level 5 uses randomisation (Farrington et al., 2002; What Works Centre for Local Economic Growth, 2015). Regulatory and diagnostic evidence is labelled "design evidence" and is not assigned an SMS level. This separation makes the judgement replicable: a policy may have a plausible design but still lack outcome evidence.

**Figure 1. Revised Theory of Change for the Final Income Tax Expenditure**




Source: Authors' construction (2026).

## METHODS

The study uses an early policy evaluation based on publicly accessible secondary data. The regulatory unit of analysis spans 2013-2026. The fiscal series covers estimates for 2021-2024 and projections for 2025-2027. Contextual indicators on registration, production, and finance are used only as pre-policy or early-implementation background. The search cut-off is 13 August 2026.

Primary legal sources include GR No. 46 of 2013, GR No. 23 of 2018, Law No. 7 of 2021, GR No. 55 of 2022, Minister of Finance Regulation No. 164 of 2023, and GR No. 20 of 2026. Fiscal data come from the 2024 Indonesian Tax Expenditure Report, Books 1 and 2. Contextual evidence comes from Statistics Indonesia, the Online Single Submission system, the Financial Services Authority, and Directorate General of Taxes publications. Academic

literature was included when it addressed tax expenditure, presumptive taxation, compliance costs, formalisation, tax thresholds, impact evaluation, or public-policy evaluation.

The analysis has five stages. First, a regulatory comparison identifies changes in rates, tax base, eligible persons, duration, ordinary-regime election, aggregation, and VAT interaction. Second, longitudinal analysis calculates nominal growth in reported expenditure. Third, a distributional simulation compares the final tax with the Article 17 benchmark after PTKP. Fourth, the evidence is mapped to the theory of change. Fifth, an OECD-DAC matrix records the evidence source, applicable SMS level, and early conclusion for each criterion. No composite score is calculated.

The distributional simulation assumes a resident individual taxpayer, single with no dependants, annual turnover of IDR 1.5 billion, PTKP of IDR 54 million, and progressive Article 17 rates under Law No. 7 of 2021. The first IDR 500 million of turnover is exempt from final income tax, making final tax IDR 5 million. Accounting profit margins of 20%, 10%, 5%, 2%, and -2% are examined. A sensitivity panel uses illustrative NPPN ratios of 10%, 20%, and 30%; actual NPPN ratios vary by business classification and location. Because the Indonesian report treats NPPN as an administrative component of the benchmark, the NPPN panel is a sensitivity analysis rather than a separate tax-expenditure definition.

The annual growth rate and benchmark tax expenditure are calculated as follows:

$$Growth_t = ((X_t - X_{(t-1)}) / X_{(t-1)}) \times 100\% \quad (1)$$

$$Tax\ expenditure_i = Benchmark\ income\ tax_i - Final\ income\ tax_i \quad (2)$$

A positive value in Equation (2) denotes a concession relative to the benchmark; a negative value denotes tax paid above the benchmark, sometimes called negative tax expenditure. The latter is an analytical result, not a cash outlay by government. It can be mitigated through the ordinary-regime election, but the election requires information and compliance capacity.

**Table 1. Data Sources and Their Roles in the Evaluation**

| Indicator | Operationalisation | Period | Source | Evaluation role |
|---|---|---|---|---|
| Regulatory design | Rate, base, eligibility, duration, election, aggregation, VAT transition | 2013-2026 | Primary laws and regulations | Design, coherence, and risk analysis |
| Tax expenditure | Value, beneficiaries, method, accuracy, projections | 2021-2027 | Kementerian Keuangan, 2024 Tax Expenditure Report | Fiscal cost, benchmark, and transparency |
| Historical compliance | Returns, users, historical bunching | 2018-2024 | Official post-implementation review | Pre-GR 20/2026 baseline only |
| Formalisation | Business Identification Numbers and business scale | 2024-Feb. 2026 | OSS/BKPM | Contextual evidence; no tax attribution |
| MSME performance | Production index and year-on-year growth | 2025 | Badan Pusat Statistik | Pre-policy baseline |
| MSME finance | Credit and non-performing loans | Mar. 2026 | Otoritas Jasa Keuangan | Pre-policy financing context |
| Academic evidence | Tax expenditure, compliance cost, thresholds, formalisation, evaluation methods | 2010-2026 | Peer-reviewed and institutional publications | Mechanism and methodological assessment |

Source: Authors' compilation (2026).

The method has four limitations. First, public data do not link beneficiaries to firm outcomes. Second, 2026 observations cover only the first months of implementation. Third, aggregate indicators use different definitions of MSMEs. Fourth, the official revenue-forgone estimate depends on imputed counterfactual profit and is rated only medium accuracy. Accordingly, contextual trends are not treated as policy effects, and causal language is reserved for evidence that meets the relevant SMS conditions.

## RESULTS AND DISCUSSION

### Evolution of the Final Income Tax Regime and the 2026 Policy Context

The policy evolved from an unlimited 1% turnover tax under GR No. 46 of 2013 to a 0.5% regime with explicit transition periods under GR No. 23 of 2018. Individuals received seven years, cooperatives, limited partnerships, and firms four years, and limited liability companies three years. The time limits were intended to promote graduation to bookkeeping and ordinary taxation. Law No. 7 of 2021 then created the IDR 500 million exemption for individual business turnover through Article 7(2a) of the Income Tax Law, and GR No. 55 of 2022 implemented it.

The seven-year period for individuals registered when GR No. 23 of 2018 took effect ended in tax year 2024. This expiry is important to the political-economy context of GR No. 20 of 2026. Without a change, a large cohort would have entered ordinary taxation in 2025. The new regulation retroactively preserves the final regime for eligible individuals whose period ended in 2024 and removes the future time limit for individuals and single-person companies. The change therefore trades graduation for certainty and immediate relief. It also protects existing cooperatives and other transitional users according to specified conditions (Pemerintah Republik Indonesia, 2026; Direktorat Jenderal Pajak, 2026).

Eligibility is more selective for new entrants. Ordinary limited liability companies, limited partnerships, firms, and village-owned enterprises can no longer newly enter the final regime, while individuals, single-person companies, and cooperatives remain eligible. Broader aggregation of business, professional, foreign, spousal, and related single-person company turnover strengthens integrity. Yet it also makes eligibility more complex than the headline 0.5% formula suggests. Taxpayers must track multiple income streams and the cumulative IDR 500 million exemption, while tax authorities must link related persons and entities.

The ordinary-regime election remains important. A taxpayer expecting a low margin or loss can notify the tax authority and use ordinary taxation prospectively. This option weakens the claim that a high tax-to-profit ratio is an unavoidable design burden. However, the economic ability to exercise the option depends on tax literacy, timely advice, bookkeeping, and the perceived cost of ordinary compliance. Policy design must therefore be evaluated jointly with administrative support.

**Table 2. Comparison of the Main Rules for Specified-Gross-Turnover Income Tax**

| Aspect | GR 46/2013 | GR 23/2018 | GR 55/2022 | GR 20/2026 |
|---|---|---|---|---|
| Rate | 1% of turnover | 0.5% of turnover | 0.5% of turnover | 0.5% of turnover |
| Turnover ceiling | Up to IDR 4.8 bn | Up to IDR 4.8 bn | Up to IDR 4.8 bn | Up to IDR 4.8 bn; broader aggregation |
| Main eligible persons | Individuals and specified entities | Individuals, cooperatives, CV/firms, limited companies | Individuals; cooperatives; CV/firms; limited companies; village-owned and single-person companies | Individuals; single-person companies; cooperatives |

| Aspect | GR 46/2013 | GR 23/2018 | GR 55/2022 | GR 20/2026 |
|---|---|---|---|---|
| Duration | No explicit limit | Individual 7 years; cooperative/CV/firm 4; limited company 3 | Same broad duration structure, including new legal forms | Individuals and single-person companies while eligible; cooperative 4 years; transition rules |
| IDR 500 m exemption | None | None at inception | First IDR 500 m for individuals under Law No. 7/2021 | Retained for individuals |
| Ordinary-regime election | Not central | Available | Available | Available under implementing rules |
| Integrity rule | Limited | Taxpayer-level threshold | Specified aggregation | Expanded spouse, professional, foreign, and related-entity aggregation |
| Policy orientation | Simplification and base expansion | Relief plus graduation | Relief, HPP equity provision, consolidation | Targeting, certainty, and integrity, with weaker graduation |

Source: Pemerintah Republik Indonesia (2013, 2018, 2021, 2022, 2026); Kementerian Keuangan Republik Indonesia (2023); authors' analysis.

## Fiscal Magnitude, the 2022 Increase, and Pre-Reform Projections

Total Indonesian tax expenditure was IDR 400.1 trillion in 2024. The specified-gross-turnover income-tax item was IDR 27.551 trillion, equal to 6.89% of total tax expenditure and 19.58% of income-tax expenditure (Kementerian Keuangan Republik Indonesia, 2025a, 2025b). Its materiality warrants outcome indicators comparable to those required for direct expenditure.

The item increased by 23.16% in 2022, from IDR 22.043 trillion to IDR 27.149 trillion. This jump coincides with the effective date of the IDR 500 million exemption introduced by Law No. 7 of 2021. Book 2 does not list the exemption as a separate item. Instead, the MSME item cites GR No. 55 of 2022 and calculates the gap between ordinary liability and the final tax actually paid; accordingly, the exemption is embedded in the same item. The report does not decompose the 2022 increase into the exemption, economic recovery, taxpayer composition, or data revisions. It would therefore be inappropriate to attribute the full 23.16% increase to the exemption alone.

The 2025-2027 values are low-accuracy projections prepared before GR No. 20 of 2026. Their bias direction is ambiguous. Narrower eligibility for new companies and broader anti-fragmentation rules should reduce expenditure relative to the old design. Conversely, removal of the duration limit for individuals and single-person companies and transitional extensions should increase it. The net effect requires beneficiary-level microsimulation, so IDR 32.762 trillion for 2026 must be presented as a pre-reform baseline rather than a forecast of actual GR No. 20/2026 cost.

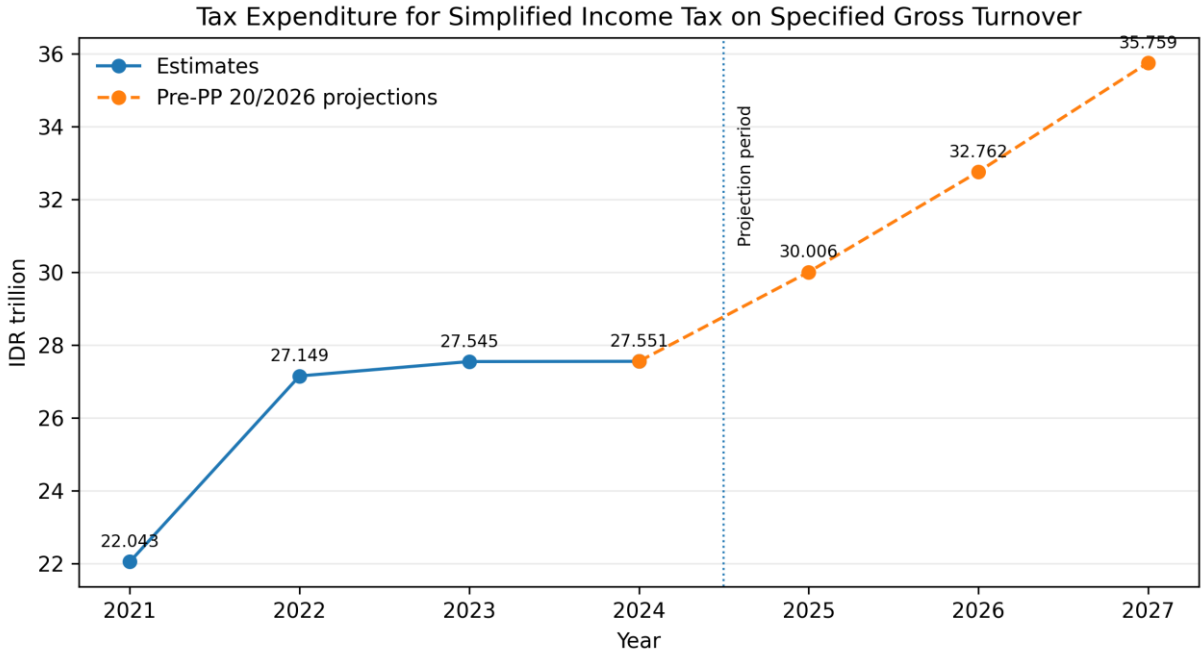
The report records 543,908 beneficiaries in 2024. Its separate filing charts list 404,428 individual users and 139,487 corporate users, approximately 74.4% and 25.6%, respectively. These figures sum to 543,915, seven more than the beneficiary total; the report does not reconcile the small difference, likely reflecting extraction or classification timing. Dividing IDR 27.551 trillion by 543,908 produces an arithmetic mean of IDR 50.65 million per taxpayer. This is large relative to the likely liability of many micro firms and is consistent with a right-skewed benefit distribution, but the mean alone cannot prove concentration. Distribution by turnover, profit margin, legal form, and sector is required.

**Table 3. Tax Expenditure for Simplified Income Tax on Specified Gross Turnover**

| Year | Value (IDR trillion) | Status | Growth |
|---|---|---|---|
| 2021 | 22.043 | Estimate | - |
| 2022 | 27.149 | Estimate | 23.16% |
| 2023 | 27.545 | Estimate | 1.46% |
| 2024 | 27.551 | Estimate | 0.02% |
| 2025 | 30.006 | Pre-reform projection | 8.91% |
| 2026 | 32.762 | Pre-reform projection | 9.18% |
| 2027 | 35.759 | Pre-reform projection | 9.15% |

Source: Kementerian Keuangan Republik Indonesia (2025a, 2025b); growth calculated by the authors. The projections were published before GR No. 20/2026.

**Figure 2. Trend in the Specified-Gross-Turnover Income-Tax Expenditure**




Source: Kementerian Keuangan Republik Indonesia (2025a, 2025b); authors' presentation.

**Distribution of Benefits Against the Ordinary-Regime Benchmark**

Table 4 changes the analytical question. Rather than reporting final tax as a percentage of profit, it compares final tax with what the same individual would pay under Article 17 after PTKP. For turnover of IDR 1.5 billion, final tax is IDR 5 million because the first IDR 500 million is exempt. At a 20% margin, ordinary income tax is IDR 30.90 million and the preferential regime generates IDR 25.90 million of tax expenditure. At a 10% margin the benefit falls to IDR 3.40 million. At a 5% margin the result becomes negative IDR 3.95 million, and at a 2% margin or a loss it is negative IDR 5 million. The break-even accounting margin is approximately 8.49%.

The distribution is therefore regressive within the eligible population when the Article 17 benchmark is used: high-profit firms receive the largest fiscal benefit, while low-profit firms receive little benefit or pay more than the benchmark. This is the policy-relevant *upside-down subsidy* problem. It does not mean that every high-margin taxpayer is large or undeserving, but it shows that turnover and legal form are weak proxies for need. Value for money cannot be

assessed from the aggregate IDR 27.551 trillion without knowing where the benefits are concentrated.

The NPPN sensitivity panel reinforces the benchmark problem. At illustrative deemed-net-income ratios of 10%, 20%, and 30%, the implied expenditure is IDR 3.40 million, IDR 25.90 million, and IDR 63.00 million. Actual NPPN ratios vary across activities and locations, and the Tax Expenditure Report treats NPPN as part of the benchmark for administrative purposes. The panel therefore demonstrates sensitivity to inferred profitability rather than proposing three legal liabilities for one taxpayer.

Negative tax expenditure for low-margin taxpayers is partly avoidable because the ordinary-regime election is available. The residual concern is not simply a defective rate. It is whether taxpayers understand the option, can forecast margins, keep adequate records, comply with notification timing, and bear the cost of bookkeeping. Targeted tax literacy and digital bookkeeping support may therefore create more value for low-margin businesses than indefinite access to a turnover tax.

**Table 4. Illustrative Distribution of Tax Expenditure Against Article 17 and NPPN Benchmarks**

| *Assumption* | *Profit / deemed net income* | *Article 17 tax after PTKP* | *Final tax* | *Tax expenditure* | *Distributional interpretation* |
|---|---|---|---|---|---|
| Panel A: 20% accounting margin | IDR 300.00 m | IDR 30.90 m | IDR 5.00 m | +IDR 25.90 m | Large benefit; high-margin taxpayer receives the largest concession |
| 10% accounting margin | IDR 150.00 m | IDR 8.40 m | IDR 5.00 m | +IDR 3.40 m | Small positive benefit |
| 5% accounting margin | IDR 75.00 m | IDR 1.05 m | IDR 5.00 m | -IDR 3.95 m | Negative tax expenditure; ordinary regime is cheaper |
| 2% accounting margin | IDR 30.00 m | IDR 0 | IDR 5.00 m | -IDR 5.00 m | Negative tax expenditure below PTKP |
| -2% accounting margin | Loss of IDR 30.00 m | IDR 0 | IDR 5.00 m | -IDR 5.00 m | Tax remains due despite loss |
| Panel B: NPPN sensitivity 10% | IDR 150.00 m | IDR 8.40 m | IDR 5.00 m | +IDR 3.40 m | Illustrative sensitivity; actual NPPN varies |
| NPPN sensitivity 20% | IDR 300.00 m | IDR 30.90 m | IDR 5.00 m | +IDR 25.90 m | Benefit rises with presumed profitability |
| NPPN sensitivity 30% | IDR 450.00 m | IDR 68.00 m | IDR 5.00 m | +IDR 63.00 m | Very large benchmark-dependent benefit |

Notes: Resident individual, single with no dependants, turnover IDR 1.5 billion, PTKP IDR 54 million, first IDR 500 million exempt from final tax. Positive values are concessions; negative values indicate tax above the benchmark. Panel B is illustrative and not a substitute for the legally applicable NPPN percentage. Source: Authors' simulation based on Law No. 7/2021, GR No. 55/2022, and Article 17 rates.

**Relevance, Simplicity, Formalisation, and Compliance**

The relevance conclusion must be narrower than in the original assessment. The BPS profile identifies capital, managerial capacity, technology, and legal status as leading constraints; it does not establish income tax as a principal constraint (Badan Pusat Statistik, 2025). The policy is relevant insofar as it reduces one component of formal operating cost and may improve cash flow, but the problem-policy fit is indirect. Under the OECD-DAC criterion, relevance is therefore only partially supported, not strongly established.

Simplicity is also mixed. The monthly 0.5% computation is transparent, but GR No. 20 of 2026 expands the income streams and related persons that must be aggregated, retains cumulative tracking of the IDR 500 million exemption, and requires taxpayers to distinguish

business, professional, domestic, foreign, and related single-person company turnover. These rules protect integrity but add information and record-keeping demands. No post-2026 compliance-cost survey supports a conclusion of strong simplicity. Historical research indicates potential cost savings, not the net effect of the new aggregation rules (Ferry et al., 2023).

Online Single Submission data show that Business Identification Numbers rose from 10 million in August 2024 to about 15.4 million by February 2026, mostly for micro businesses (Kementerian Investasi dan Hilirisasi/BKPM, 2024, 2026). This expansion predates GR No. 20 of 2026 and is more directly linked to licensing reform. It is contextual evidence of formalisation infrastructure, not an income-tax effect.

Historical tax data show high filing rates for corporate users in 2020-2022 and a decline in the number of individual users after the IDR 500 million exemption. These patterns help define the baseline, but they cannot be transferred to the 2026 design. In particular, fewer users after 2022 can reflect exemption from payment rather than reduced formality, and 2024 filing data were extracted before all returns were filed (Kementerian Keuangan Republik Indonesia, 2025a). Effectiveness with respect to formalisation and compliance remains unestablished.

**The Double Notch at IDR 4.8 Billion and the Graduation Problem**

The IDR 4.8 billion ceiling is not an income-tax threshold in isolation. Minister of Finance Regulation No. 164 of 2023 also uses it as the small-business threshold for VAT. A taxpayer exceeding the ceiling generally completes the current year under the final-income-tax rules, enters ordinary income taxation in the next year, reports for VAT registration by year-end, and begins VAT collection, remittance, invoicing, and return obligations from the next tax period. Crossing the threshold therefore changes both the income-tax base and the VAT compliance system.

This double notch strengthens the incentives identified by Kleven and Waseem (2013). The cost of crossing includes bookkeeping under ordinary income tax, VAT invoices, input-output VAT reconciliation, monthly VAT returns, possible price effects, and greater audit visibility. Firm splitting and under-reporting can therefore be driven by the combined tax package rather than by the 0.5% rate alone. Broader turnover aggregation under GR No. 20 of 2026 is coherent with anti-avoidance objectives, but it does not remove the notch and may increase compliance complexity.

The removal of the seven-year limit should also be understood against the 2024 expiry of the first major individual cohort. Extending the regime offered immediate certainty and reduced transition costs. The political and economic trade-off is that a temporary bridge to bookkeeping becomes a potentially permanent regime. A credible graduation policy therefore requires coordinated income-tax and VAT assistance, not only a final-tax expiry date.

**Business Growth and the Limits of the Historical ROA Evidence**

The production index for micro and small manufacturing increased during 2025, and MSME credit reached IDR 1,498.64 trillion in March 2026. Both are pre-policy or near-policy baselines and are influenced by demand, inflation, sector composition, financing conditions, and digitalisation (Badan Pusat Statistik, 2026; Otoritas Jasa Keuangan, 2026). They cannot be attributed to GR No. 20 of 2026.

The official post-implementation review reports that corporate taxpayers moving to or using the ordinary regime had higher return on assets (ROA): the reported average treatment effect on the treated was 0.0078 without covariates and 0.0294 with covariates, while a small-firm subsample showed a negative coefficient for the final-regime indicator (Kementerian Keuangan Republik Indonesia, 2025a). These results should be read as descriptive and design-specific evidence for corporate taxpayers, not as proof that the turnover tax reduces profitability.

First, selection is endogenous. More profitable firms are more likely to exceed the turnover ceiling or complete the allowed period and enter the ordinary regime, so their higher subsequent ROA may partly reflect pre-existing capacity. Second, profit measures are not necessarily comparable: final-regime taxpayers may not maintain books equivalent to ordinary-regime taxpayers. Third, the reported pre-treatment joint test has a p-value of 0.0000, which cautions against a clean parallel-trends interpretation. Fourth, the analysis concerns the old regime and corporate taxpayers, whereas GR No. 20 of 2026 focuses new eligibility on individuals, single-person companies, and cooperatives. The ROA evidence is therefore relevant as a warning and research hypothesis, but not as a causal finding for the new policy.

**Replicable Early Evaluation Using OECD-DAC and the Maryland SMS**

Table 5 reports the evidence without converting it into an arbitrary strong-moderate-limited score. OECD-DAC criteria define the evaluative question, while the SMS records the strongest available causal design. "Design evidence" is used where the question concerns legal logic rather than causal effects. SMS levels are not assigned to contextual indicators that do not identify beneficiaries.

**Table 5. Early Evaluation Matrix Based on OECD-DAC Criteria and the Maryland SMS**

| Criterion | Operational question | Available evidence | Evidence design / SMS | Early evaluative conclusion |
|---|---|---|---|---|
| Relevance | Does the intervention address priority MSME needs and beneficiary conditions? | BPS identifies capital, management, technology, and legality; tax cost is not a leading stated constraint. | Diagnostic/design evidence; SMS n/a | Partially supported and indirect. Tax relief addresses one cost but not the most clearly documented binding constraints. |
| Coherence | Does the regime fit other tax and MSME policies? | Shared IDR 4.8 bn income-tax/VAT threshold; anti-fragmentation rules; ordinary-regime election. | Regulatory design evidence; SMS n/a | Mixed. Integrity improves, but the double notch and permanent regime conflict with smooth graduation. |
| Effectiveness | Are formalisation, filing, payment, or bookkeeping objectives being achieved? | No beneficiary-linked post-2026 outcomes; historical filing data only. | At best SMS 1 for historical descriptive evidence | Not established for GR No. 20/2026. |
| Efficiency | Do incremental benefits exceed fiscal, compliance, and administrative costs? | Fiscal cost estimated; incremental outcomes and new-regime compliance costs unavailable. | No causal cost-outcome design | Not established. Value for money cannot be calculated. |
| Impact | What difference does the intervention make to survival, productivity, jobs, and growth? | Only aggregate pre-policy indicators; historical corporate ROA study has comparability and identification concerns. | Aggregate data SMS 1; historical study nominally SMS 3 but low applicability | Not established for the target population or new regulation. |
| Sustainability | Will benefits persist without dependency or weakened graduation? | No duration limit for individuals and single-person companies; narrower legal-form eligibility. | Design evidence; SMS n/a | Uncertain. Certainty improves, but dependency and reluctance-to-graduate risks increase. |

| Criterion | Operational question | Available evidence | Evidence design / SMS | Early evaluative conclusion |
|---|---|---|---|---|
| Equity (cross-cutting) | How are benefits and burdens distributed? | Benchmark simulation; aggregate mean benefit; no beneficiary-level distribution. | Deterministic incidence simulation; no causal SMS | Material regressive risk: benefits increase with profitability; empirical concentration remains unmeasured. |
| Evaluability (cross-cutting) | Can beneficiaries, costs, and outcomes be linked over time? | Transparent aggregate reporting, but no linked taxpayer-business-outcome panel. | Data-system assessment; SMS n/a | Partially evaluable for fiscal cost, weakly evaluable for outcomes and additionality. |

Source: Authors' evaluation based on OECD (2019, 2021), Farrington et al. (2002), and What Works Centre for Local Economic Growth (2015). SMS is applied only to causal outcome evidence.

### Public Value, Value for Money, and Evaluation Readiness

The value-for-money numerator should measure incremental formalisation, compliance, survival, productivity, employment, and financing that would not occur without the regime. The denominator should include net revenue forgone, administration costs, and taxpayer compliance costs. The current report provides only an aggregate, medium-accuracy estimate of the principal fiscal cost. It does not provide the distribution of benefit, additional outcomes, or a counterfactual that incorporates behavioural responses.

Distribution is central. An average expenditure of IDR 50.65 million per taxpayer is not evidence of equal support. The benchmark simulation shows that a taxpayer with a 20% margin receives more than seven times the benefit of one with a 10% margin, while a taxpayer with a 5% margin is worse off than under Article 17. If public resources are concentrated among high-profit users who would remain formal without the concession, deadweight is high and value for money is low. Conversely, if the regime induces durable formalisation and lower compliance cost among constrained firms, the public value may be positive. Public data cannot currently distinguish these cases.

Evaluation readiness requires a secure panel linking taxpayer identity, business identification number, legal form, eligibility status, turnover, ordinary-regime election, profit or NPPN basis, income-tax filing, VAT registration, employment, financing, and survival. Public reporting can remain aggregated, but access for independent research should permit distributional and quasi-experimental analysis under confidentiality safeguards. A post-reform forecast should also replace the 2025 pre-reform projection and separately identify the effects of narrower legal-form eligibility, unlimited duration, transitional extensions, and aggregation rules.

Alternative instruments should be evaluated. For low-margin businesses, bookkeeping assistance, tax-literacy services, subsidised accounting software, legalisation support, or credit guarantees may provide more targeted value than a concession that increases with profit. For higher-margin firms, the ordinary regime may be administratively feasible and more equitable. A coherent reform should therefore combine simple entry rules with a supported, predictable transition to ordinary income tax and VAT.

## CONCLUSION

The final income-tax regime has evolved from a broad 1% turnover tax to a 0.5% temporary transition regime and, under GR No. 20 of 2026, to a more selective but potentially permanent regime for individuals and single-person companies. The new regulation narrows new legal-form eligibility and strengthens aggregation, yet it weakens the original graduation function. Its relationship with the VAT threshold creates a double transition at IDR 4.8 billion.

The central finding is distributional. Against the Article 17 and PTKP benchmark, tax expenditure rises with profitability. In the illustrative case, a 20% margin produces a benefit of IDR 25.90 million, a 10% margin only IDR 3.40 million, and margins of 5% or less produce negative tax expenditure. The right to elect ordinary taxation can avoid much of the low-margin burden, but doing so requires literacy, timely choice, and bookkeeping capacity. Hence the policy issue is not merely the turnover rate; it is the allocation of fiscal benefit and access to the appropriate regime.

Using OECD-DAC criteria and the Maryland SMS changes the evaluation conclusion. Relevance and simplicity are only partially supported: tax is not the principal constraint identified by BPS, and integrity rules add complexity. Coherence is mixed because the shared PPh-VAT threshold and permanent eligibility can obstruct graduation. Effectiveness, efficiency, impact, and value for money are not established because post-2026 beneficiary-linked data do not exist. Historical ROA findings are not transferable as causal evidence for the new regime.

The study contributes by treating the regime as public expenditure whose distribution and additionality must be assessed. Its limitations are the short post-policy period, aggregate data, uncertainty in counterfactual profit, an unresolved discrepancy in beneficiary counts, and the absence of linked outcomes. The conclusions are therefore evaluative and distributional, not causal.

**Recommendations**

In the short term, the Ministry of Finance and the Directorate General of Taxes should publish beneficiary counts and tax expenditure by individual versus entity, turnover band, sector, region, profit or NPPN band, and ordinary-regime election. The 2025-2027 projection should be updated after GR No. 20 of 2026, and the effect of the IDR 500 million exemption should be separately decomposed even if it remains within the same tax-expenditure item.

In the medium term, tax-literacy and digital-bookkeeping support should accompany the ordinary-regime election. Evaluation should measure actual compliance costs under the expanded aggregation rules. Linked DJP, OSS, BPS, BI, and OJK data should support analysis of filing, VAT registration, credit, employment, and survival while protecting confidentiality.

In the long term, government should review the income-tax and VAT thresholds jointly, test smoother transition mechanisms, and conduct a periodic evidence-based review of permanent eligibility. Possible alternatives include a graduated turnover rate, a margin-sensitive safe harbour, targeted bookkeeping credits, or a supported move to net-income taxation. A credible impact study should be designed prospectively and should seek at least SMS Level 3 evidence after sufficient post-policy observations are available.

**Data Availability**

All data used in this study were obtained from publicly accessible secondary sources. The issuing institutions, documents, periods, and references are reported in the Method section and reference list. The beneficiary-linked microdata required for causal and distributional evaluation are not publicly available.

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