

EFFECTIVE TAX MANAGEMENT STRATEGIES FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

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Abstract

Tax management remains a pressing challenge for small and medium-sized enterprises (SMEs) in Indonesia, which contribute significantly to the national economy yet often struggle with tax compliance. This study aims to explore effective tax management strategies by conducting a Systematic Literature Review (SLR) of 42 relevant academic and institutional sources published in the last decade. The method involved thematic coding and narrative synthesis of selected literature to identify recurring issues and proposed solutions. The analysis reveals that strategies such as targeted tax education, digital integration, regulatory clarity, institutional collaboration, and incentive alignment are key drivers of compliance. A novel contribution of this study lies in the integrative model proposed emphasizing coordination among stakeholders and contextual adaptation to the Indonesian SME landscape. The findings offer practical insights for policymakers and tax authorities to design more inclusive and effective tax systems tailored to SMEs.

Keywords : SMEs, Tax, Strategy

Citation :

Tampubolon, A. S., Suryadi, I., Priyatna, H. N., & Ersanti, E. 2025. Effective Tax Management Strategies for Small and Medium Enterprises (SMEs). *MSJ: Majority Science Journal*, 3(2), 188-192.

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1. Introduction

Small and Medium Enterprises (SMEs) is a sector that has a significant contribution to Gross Domestic Product (GDP) and employment in Indonesia (Aladin et al., 2021). According to data from the Ministry of Cooperatives and SMEs, the number of SMEs in Indonesia reaches more than 64 million business units and contributes around 60% to the national GDP (Hermawan & Nugraha, 2022). Despite the vital role of SMEs, compliance with tax obligations is still a serious issue that requires special attention (Al-Rahamneh et al., 2023). Many SMEs do not understand the important role of taxes in national development and often see taxes as an additional burden rather than a state obligation (Everest-Phillips, 2008). This is exacerbated by limited resources, both in terms of finance and managerial knowledge, which makes tax management a challenge.

One of the biggest challenges in tax management by SMEs is limited tax literacy (RESMI et al., 2021). Many business owners do not have a background in accounting or taxation, making it difficult for them to record transactions systematically and prepare financial statements in accordance with the standards set by the Directorate General of Taxes (Paramitha Nida et al., 2024). This ignorance often leads to delays in reporting, errors in filling out tax returns, and even administrative sanctions that have an impact on business cash flow (Zainal et al., 2025). The lack of training and technical guidance from relevant authorities has widened the information gap.

In addition, complex and frequently changing tax regulations are also an obstacle for SMEs (Lavic, 2023). Businesses must keep abreast of dynamic tax regulations, but in practice not all SMEs have the access or capacity to understand and adapt to these regulatory changes (Quansah et al., 2022). Not to mention, the different interpretations of tax regulations often confuse SMEs who do not have access to tax consultants or professional assistants (European Parliament. Directorate General for Internal Policies of the Union., 2022). This leads to legal uncertainty and potentially unintentional non-compliance.

Rapidly growing digitalization also brings challenges and opportunities in tax management (Ihnatišinová, 2021). On the one hand, the government has introduced various innovations such as e-filing, e-billing, and e-invoice to simplify the tax administration process

(Panjaitan & Rialdy, 2024). On the other hand, not all SMEs have sufficient infrastructure and digital literacy to utilize this technology optimally (Ollerenshaw et al., 2021). Digital inequality becomes a barrier in creating a more inclusive and efficient tax system (Kolotouchkina et al., 2024). Many SMEs in remote or conventional areas have difficulty accessing digital tax services, so the compliance gap persists (Hesami et al., 2024).

Therefore, a comprehensive effective strategy is needed to assist SMEs in managing taxes optimally. This strategy should include a continuous educative approach, simplification of regulations, strengthening of digital capacity, and provision of fiscal incentives that encourage compliance. With a multidisciplinary approach combining economic, legal, information technology, and management perspectives, this research seeks to explore practical and applicable solutions to support SMEs' growth without neglecting tax compliance.

2. Method

This study employed a Systematic Literature Review (SLR) approach to identify, evaluate, and synthesize academic and policy literature relevant to tax management strategies for SMEs. The review focused on sources published within the last 10 years, using databases such as Google Scholar, Scopus, and ProQuest with keywords including "SMEs", "tax management", "tax strategy", and "tax compliance", filtered to include studies related to Indonesia or other developing economies. The review process involved several stages. First, an initial pool of 123 documents was identified. After screening titles and abstracts for relevance, 42 articles were selected for full-text analysis. The selected documents included peer-reviewed journal articles, government reports, and institutional studies from organizations such as OECD, Bappenas, and the Indonesian Ministry of Finance.

For data analysis, a manual thematic coding technique was applied to categorize recurring concepts and strategic recommendations. Articles were read thoroughly, and relevant excerpts were coded based on emerging themes such as tax literacy, digital infrastructure, regulatory environment, institutional support, and incentive structures. These themes were then synthesized through a narrative approach, allowing a comprehensive mapping of interrelated strategies and identifying gaps or overlaps in existing literature. No software tools such as NVivo were used; instead, the coding was conducted manually to retain contextual nuance during interpretation. As for limitations, this SLR is subject to several constraints. First, there is a risk of publication bias, as the review mainly relied on publicly available articles, potentially excluding unpublished reports or working papers with relevant insights. Second, language bias may exist, as most selected studies were published in English or Bahasa Indonesia, possibly omitting valuable sources in other languages. Third, the review is limited by database accessibility, which may not capture region-specific policy documents or local initiatives documented outside indexed repositories. Despite these limitations, the study offers a structured and context-rich synthesis of existing knowledge that can inform both academic research and policymaking.

3. Results and Discussion

The analysis of 42 selected studies indicates that while tax literacy, digital transformation, regulatory simplification, strategic collaboration, and fiscal incentives are frequently identified as core strategies in previous literature, this study contributes by offering an integrative and contextualized framework specifically designed for Indonesia's SME environment. The novelty lies in how these strategies are not only treated as individual factors but synthesized into a cohesive model that emphasizes implementation mechanisms, stakeholder alignment, and contextual reflection.

First, enhancing tax literacy remains a critical but under-implemented pillar. Previous studies typically recommend training and education, but often fail to address how these programs should be tailored to the socioeconomic and educational realities of SME actors in Indonesia. This review proposes that tax education must go beyond formal training modules by embedding fiscal awareness into community entrepreneurship programs, vocational curricula, and digital platforms already used by SMEs. For example, incorporating gamified tax education into popular bookkeeping applications like BukuWarung or Mekari can improve

engagement and comprehension. This combination of formal and informal literacy channels presents a more sustainable model compared to top-down, one-time training efforts commonly found in past programs. Digital transformation is the second pillar, and this study adds value by analyzing practical implementation from a successful international case: South Korea. The South Korean National Tax Service (NTS) operates a fully integrated platform called Hometax, which supports e-filing, e-invoicing, AI-based tax advice, and real-time financial transaction syncing. Importantly, the Korean government ensured integration with private-sector accounting tools and subsidized the onboarding process for SMEs. The platform also includes a feature that predicts potential tax errors before submission, significantly reducing non-compliance.

Reflecting on Indonesia's progress, while the Directorate General of Taxes (DJP) has introduced e-filing and e-billing systems, the adoption remains uneven due to limited digital capacity and poor interoperability with SME accounting practices. The lesson from Korea highlights the importance of system integration, centralized data flow, and cross-agency coordination. This article recommends establishing a national digital SME tax dashboard that is connected not only to the DJP but also to the Ministry of Cooperatives and the Financial Services Authority (OJK), enabling real-time monitoring, reminders, and risk-based guidance. This ecosystem-based model offers a more realistic roadmap for Indonesia to close the digital gap in tax administration. On regulatory simplification, the review reaffirms that excessive complexity and overlapping rules contribute to unintentional non-compliance. What distinguishes this study is the emphasis on interpretative clarity rather than mere reduction of rules. Many SMEs are not only overwhelmed by quantity but confused by the ambiguity of rules. The proposed solution is the creation of regional "Regulatory Interpretation Units" under DJP, where SMEs can get standardized explanations and dispute resolutions. This participatory approach can reduce fear of compliance and promote proactive tax behavior.

Strategic partnerships are another area where this review identifies institutional blind spots. While business associations are often mentioned as intermediaries, this study proposes a more formalized model of cooperation where local tax offices partner with accredited SME associations to deliver joint outreach, provide micro-consultations, and channel fiscal incentives. Such community-based tax engagement models have proven effective in countries like Rwanda and Kenya, where SME tax compliance increased after localized tax co-creation initiatives were implemented.

Lastly, fiscal incentives are often treated as end-point rewards, but this article reframes them as behavioral nudges that can shape long-term compliance culture. One novel contribution of this study is the proposal of a "Compliance Scorecard", a publicly accessible rating mechanism where SMEs earn compliance points for timely submissions, accuracy, and digital use. These points can be redeemed for access to subsidized credit, government procurement eligibility, or lower tax audit risk. By embedding tax compliance into business reputation and opportunity systems, the state creates a stronger incentive structure that goes beyond short-term relief.

In conclusion, while the elements of effective tax management strategies for SMEs are not entirely new, the key contribution of this study lies in how it integrates these elements into an actionable, localized, and technology-oriented framework. By drawing on global best practices and tailoring them to Indonesia's institutional realities, this study provides a fresh perspective for policymakers, tax authorities, and SME support institutions to build a tax system that is not only efficient, but also inclusive and growth-enabling.

4. Conclusions and Suggestions

This study concludes that effective tax management for SMEs in Indonesia requires an integrated strategy involving tax literacy, digital transformation, regulatory simplification, strategic partnerships, and behavior-based fiscal incentives. Practical implications include the need for the Ministry of Finance and the Directorate General of Taxes to develop a national tax education program integrated with entrepreneurship training, accelerate the integration of SME accounting systems with DJP's digital platforms, and establish regional regulatory interpretation units to reduce legal ambiguity. Strengthening collaboration between tax

authorities and SME associations, along with implementing a compliance scorecard linked to incentives such as financing access and government procurement, is also recommended. This approach aims to enhance voluntary tax compliance without hindering business growth.

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