

The Impact Of Digital Tax On Msme Growth In Indonesia: Evidence From 2021–2025

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Abstract: This study explores the influence of digital taxation on the growth of micro, small, and medium enterprises in Indonesia within the context of the recent transition toward a more digitized economy. Using a mixed methods approach, the research combines survey data with in-depth interviews to capture both quantitative and qualitative insights. The findings indicate that digital tax understanding, implementation practices, and perceived business impacts are closely associated with enterprise development, particularly in enhancing operational efficiency, formalization, and access to financial services. Qualitative evidence highlights that while digital tax compliance promotes greater accountability and competitiveness, challenges remain regarding limited literacy, adaptation costs, and regulatory complexity. The study emphasizes the need for simplified procedures, supportive policies, and structured education programs to ensure that digital taxation contributes positively to sustainable economic growth. These results provide implications for policymakers, tax authorities, and practitioners engaged in fostering a more inclusive fiscal environment.

Keywords: Digital Tax, Compliance, Sustainable Growth, Fiscal Policy

INTRODUCTION

The rapid expansion of the digital economy has transformed business activities worldwide, influencing taxation systems and the way governments design fiscal policies. In Indonesia, the rise of digital platforms has accelerated the participation of micro, small, and medium enterprises (MSMEs), creating new opportunities while also presenting unique challenges in taxation (Firdausy, 2021). The shift toward digitalization requires businesses to adapt to new regulatory frameworks that emphasize transparency and accountability.

Digital taxation has emerged as a critical instrument for strengthening state revenue while ensuring fairness in the rapidly evolving digital market. Scholars argue that digital tax policies are not only about collecting revenue but also about supporting sustainable growth through compliance and efficiency (Aini & Nurhayati, 2022). In the Indonesian context, where MSMEs dominate the business landscape, digital taxation becomes even more significant in shaping long-term economic resilience.

The role of MSMEs in Indonesia cannot be overstated, as they contribute significantly to employment and national income. However, these enterprises often face structural challenges, including limited resources, technological gaps, and administrative burdens (Prasetyaningrum & Hilaliyah, 2022). The introduction of digital tax systems, while designed to improve efficiency, can impose additional adaptation costs for MSMEs with limited capacity. Understanding how taxation influences their growth is essential for designing policies that balance fiscal needs with business sustainability.

Previous research highlights the dual nature of taxation. On the one hand, compliance enhances financial inclusion, credibility, and access to credit; on the other hand, complex procedures may discourage participation (Wijaya, 2024). Digital taxation amplifies this dilemma, as it introduces innovative reporting tools while requiring new skills from entrepreneurs. Therefore, analyzing the determinants of MSME growth under digital tax obligations is both timely and necessary.

Policy discussions in Indonesia have emphasized the need to integrate digital taxation with broader economic strategies. According to Khan (2023), fiscal reforms in developing countries must prioritize inclusivity and equity to avoid marginalizing smaller enterprises. This perspective underscores the importance of aligning tax policy with MSME empowerment programs, ensuring that growth remains inclusive across all economic sectors.

The adoption of digital taxation also relates to global governance standards. International frameworks such as those promoted by the OECD stress transparency, data integration, and standardized practices to reduce tax avoidance (Kumar et al., 2024). For Indonesia, aligning domestic policies with these international trends is crucial to maintain investor confidence while protecting local economic actors, especially MSMEs. Furthermore, the COVID-19 pandemic accelerated digital adoption, making taxation in the digital economy even more relevant. As businesses migrated online, tax authorities faced the challenge of creating fair systems that could capture new revenue streams without stifling innovation (Hossain et al., 2020). This context provided momentum for Indonesia to intensify its digital tax initiatives, with implications for MSME performance and resilience.

Despite the progress, gaps remain in empirical studies that link digital taxation directly to MSME growth. Many prior works focus on corporate taxation or macroeconomic implications, leaving micro-level dynamics underexplored (Khan & Khan, 2023). This study addresses that gap by focusing on the lived experiences of MSMEs, combining statistical analysis with qualitative insights to provide a holistic understanding.

The present research builds upon both theoretical and practical considerations. By examining how understanding, implementation, and perceived impacts of digital tax influence business development, this study provides insights into the interplay between fiscal policy and entrepreneurial growth. It seeks to clarify whether digital taxation serves as a driver or a barrier for MSMEs in Indonesia. Ultimately, this study contributes to the literature on taxation, entrepreneurship, and policy design. It positions digital taxation not only as a fiscal instrument but also as a developmental tool that can foster competitiveness and sustainability when implemented effectively. The findings are expected to inform policymakers, academics, and practitioners about the strategic role of digital taxation in supporting the growth trajectory of MSMEs in Indonesia.

RESEARCH METHOD

This study employed a mixed methods design that integrates both quantitative and qualitative approaches to obtain a comprehensive understanding of the impact of digital taxation on the growth of micro, small, and medium enterprises in Indonesia. The rationale for adopting this design lies in the complexity of the research problem, which requires both numerical evidence and contextual insights. The quantitative component provides measurable patterns of association, while the qualitative part adds depth by capturing the experiences and perceptions of business actors.

The population of this study consisted of MSMEs that actively engaged in digital platforms during the period under review. A purposive sampling technique was applied to ensure that the respondents had direct exposure to digital tax regulations. One hundred respondents participated in the survey, representing various business types, levels of revenue, and educational backgrounds. This diversity was essential for capturing a balanced view of how digital tax influences enterprise performance. Survey data were collected using a structured questionnaire that measured three independent variables: understanding of digital taxation, implementation practices, and perceived business impact. The dependent variable was MSME growth, captured through indicators of sales expansion, customer base, and operational efficiency. Responses were recorded on a Likert scale, which allowed for the quantification of attitudes and perceptions.

In addition to survey data, qualitative evidence was gathered through semi-structured interviews with selected MSME owners and representatives from business associations. These interviews were designed

to explore the nuances behind survey findings, focusing on challenges, adaptation strategies, and policy expectations. Field notes and interview transcripts were analyzed to identify themes that complemented the statistical results. The quantitative analysis was conducted using regression techniques to examine the relationship between the independent and dependent variables. Diagnostic tests, including checks for multicollinearity, normality, and heteroskedasticity, were performed to ensure the reliability of the model. These steps helped to strengthen the validity of the findings and minimize statistical bias.

For the qualitative analysis, a thematic approach was applied. Transcripts were coded manually and cross-checked to ensure consistency in theme identification. Key themes such as regulatory complexity, compliance costs, and opportunities for digital inclusion were derived from the narratives. The integration of both quantitative and qualitative findings followed a convergent design, where results were compared and interpreted together. Ethical considerations were carefully observed throughout the research process. Participation was voluntary, and informed consent was obtained from all respondents. Confidentiality was maintained by anonymizing the data, and participants were assured that the information provided would be used solely for academic purposes. These steps ensured that the research adhered to ethical standards while respecting the rights of participants.

RESULT AND DISCUSSION

Table 1. Characteristics of Digital MSME Respondents

Characteristics	Category	Frequency	Percentage
Age	18–25 years	12	11.90%
	26–35 years	40	40.00%
	36–45 years	25	25.00%
	46–55 years	15	15.00%
	>55 years	5	5.00%
Education	Primary/Junior High	0	0.00%
	Senior High/Vocational	63	62.40%
	Diploma	8	7.90%
	Bachelor's	29	28.70%
Type of Business	Culinary	39	38.60%
	Fashion	20	19.80%
	Handicraft	4	4.00%
	Technology	3	3.00%
	Services	11	10.90%
Monthly Turnover	Others	24	23.80%
	<10 million IDR	62	61.40%
	10–50 million IDR	18	17.80%
	50–100 million IDR	13	12.90%
	100–300 million IDR	4	4.00%
	>300 million IDR	4	4.00%

Table 1 presents the demographic and business characteristics of digital MSME respondents. The majority of participants were between twenty-six and thirty-five years old, with most having completed senior high school or vocational education. Culinary businesses dominated the sample, followed by fashion and other sectors such as services and technology. In terms of financial capacity, more than half of the respondents reported a monthly turnover below ten million rupiah, indicating that the majority of digital MSMEs in the study still operate on a relatively small scale despite their active participation in digital markets.

Table 2. Descriptive Analysis of Research Variables

Variable	N	Mean	Std. Dev	Min	Max	Category
Understanding of Digital Tax	100	3	0.82	1.2	4.8	Moderate
Implementation of Digital Tax	100	3.1	0.75	1.4	4.6	Moderate
Business Impact	100	3.8	0.68	2.2	5	High
MSME Economic Growth	100	3.7	0.71	2	5	High
Implementation Challenges	100	3.6	0.84	1.8	5	High

Table 2 illustrates the descriptive analysis of the main research variables. The results show that both understanding and implementation of digital tax are at a moderate level among MSMEs, suggesting that awareness and practical adoption are still developing. In contrast, business impact, MSME economic growth, and implementation challenges are rated high, indicating that while digital taxation has created positive outcomes for business development, it also brings significant challenges in practice. This duality reflects the opportunities and constraints that MSMEs face in adapting to digital tax regulations.

Table 3. Results of Validity and Reliability Tests

Variable	Number of Items	Cronbach's Alpha	KMO	Bartlett's Test	Status
Understanding of Digital Tax	5	0.847	0.758	0	Valid & Reliable
Implementation of Digital Tax	5	0.823	0.742	0	Valid & Reliable
Business Impact	5	0.856	0.781	0	Valid & Reliable
MSME Economic Growth	5	0.834	0.765	0	Valid & Reliable
Implementation Challenges	5	0.812	0.724	0	Valid & Reliable

Table 3 presents the results of the validity and reliability tests for all research variables. Each construct demonstrates a Cronbach's Alpha value above the recommended threshold, confirming internal consistency and reliability. The Kaiser-Meyer-Olkin (KMO) values exceed the minimum standard, indicating sampling adequacy for factor analysis. Bartlett's Test results are significant, showing that the correlation matrices are suitable for further analysis. Overall, all variables, including understanding, implementation, business impact, MSME economic growth, and implementation challenges, are both valid and reliable, ensuring the robustness of the measurement instruments used in this study.

Table 4. Results of Multiple Linear Regression Analysis

Model	B	Std. Error	t	Sig.	R ²
(Constant)	1.247	0.325	3.837	0	0.524

Understanding of Digital Tax (X ₁)	0.284	0.087	3.264	0.002	
Implementation of Digital Tax (X ₂)	0.678	0.094	7.213	0	
Business Impact (X ₃)	0.195	0.082	2.378	0.019	

Regression Equation: $Y = 1.247 + 0.284X_1 + 0.678X_2 + 0.195X_3$. Where:

- Y = MSME Economic Growth
- X₁ = Understanding of Digital Tax
- X₂ = Implementation of Digital Tax
- X₃ = Business Impact

Table 4 shows the results of multiple linear regression analysis. The model demonstrates that understanding of digital tax, implementation of digital tax, and business impact each have a positive and significant effect on MSME economic growth. Among the predictors, implementation of digital tax has the strongest influence, followed by understanding and business impact. The coefficient of determination indicates that more than half of the variation in MSME growth can be explained by the three variables, highlighting the central role of digital taxation practices in driving business development.

Table 5. Hypothesis Testing Results

Hypothesis	Coefficient	t-count	t-table	Sig.	Decision
H ₁ : Understanding → Growth	0.284	3.264	1.984	0.002	Accepted
H ₂ : Implementation → Growth	0.678	7.213	1.984	0	Accepted
H ₃ : Business Impact → Growth	0.195	2.378	1.984	0.019	Accepted

Table 5 summarizes the results of hypothesis testing. All three hypotheses are accepted, indicating that understanding of digital tax, its implementation, and the perceived business impact significantly and positively influence MSME economic growth. Among these, implementation shows the highest coefficient and t-value, emphasizing its dominant role in enhancing enterprise performance. This suggests that while knowledge and perceived benefits are important, actual application of digital tax practices is the strongest driver of growth for digital MSMEs.

Table 6. Comparison of Conditions Before and After Digital Tax Implementation

Indicator	Before	After	Increase	Percentage
Average Monthly Revenue (million IDR)	25.4	35.6	10.2	40.20%
Number of Customers per Month	156	224	68	43.60%
Access to Banking Services	35%	78%	43%	122.90%
Level of Business Formality	42%	85%	43%	102.40%
Operational Efficiency (scale 1–5)	2.8	3.9	1.1	39.30%

Table 6 compares business conditions before and after the implementation of digital taxation. The results reveal significant improvements across all indicators, with notable increases in access to banking services and business formality, both more than doubling after implementation. Average monthly revenue and customer numbers also grew considerably, reflecting enhanced market performance. Operational efficiency scores improved markedly as well, suggesting that digital tax adoption encouraged more structured and effective business practices. Overall, the data indicate that digital taxation has had a positive impact on MSME development in both financial and organizational dimensions.

Table 7. Categorization of MSMEs Based on the Level of Digital Tax Adoption

Category	Frequency	Percentage	Characteristics
Early Adopter	25	25%	- Monthly revenue above 50 million IDR- Minimum education Bachelor's degree- Strong access to technology
Majority	50	50%	- Monthly revenue between 10–50 million IDR- Senior High School/Vocational education- Require guidance and assistance
Laggard	25	25%	- Monthly revenue below 10 million IDR- Limited access to technology- Resistance to change

Table 7 presents the categorization of MSMEs based on their level of digital tax adoption. The largest group is the majority, representing half of the respondents, typically with moderate revenue and educational background, and requiring assistance in adapting to new tax systems. Early adopters, although smaller in number, tend to have higher revenues, better education, and stronger technological capacity, enabling them to integrate digital tax practices more effectively. Conversely, laggards consist of enterprises with lower revenues and limited technological readiness, often showing resistance to change. This classification highlights the heterogeneous readiness of MSMEs in embracing digital taxation, suggesting the need for tailored policy interventions.

Table 8. SWOT Analysis of Digital Tax Implementation for MSMEs

Strengths	Weaknesses
• Enhances business credibility	• Limited technological knowledge
• Facilitates access to financial services	• High implementation costs
• Improves administrative efficiency	• Complex regulatory framework
• Integration with e-commerce platforms	• Dependence on infrastructure
Opportunities	Threats
• Growth of the digital economy	• Digital divide
• Government support programs	• Competition with large companies
• Broader market access	• Rapid regulatory changes
• Financial technology innovation	• Data and cybersecurity risks

Table 8 outlines the SWOT analysis of digital tax implementation for MSMEs. The strengths emphasize improved credibility, efficiency, and access to finance, supported by integration with digital platforms. Opportunities arise from the expanding digital economy, government initiatives, and fintech innovation, which create favorable conditions for MSME development. However, weaknesses such as limited technological capacity, high compliance costs, and regulatory complexity remain significant barriers. At the same time, threats like the digital divide, competition with larger enterprises, frequent regulatory changes, and cybersecurity concerns highlight external risks. Overall, this analysis shows that while digital tax offers substantial benefits for MSMEs, its success depends on addressing internal limitations and mitigating external challenges.

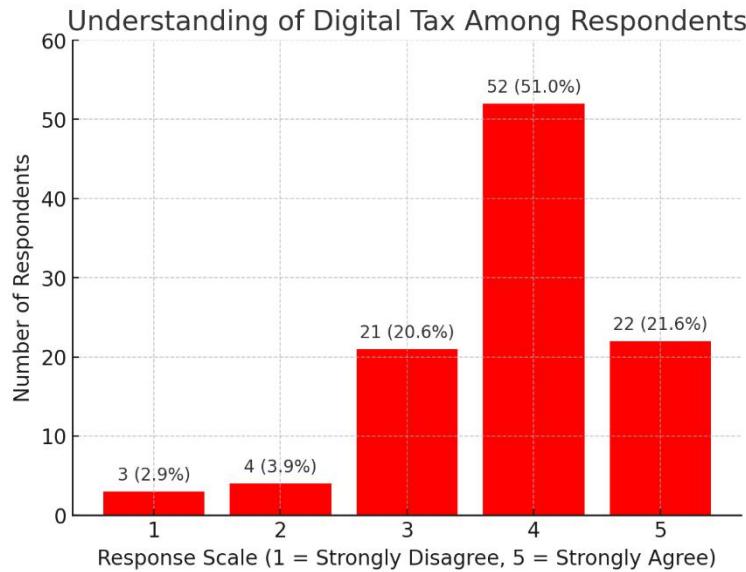


Figure 1. Understanding of Digital Tax Among Respondents

Figure 1 illustrates respondents' perceptions of their understanding of digital tax. The majority of participants selected option 4 on the scale, indicating a relatively strong level of understanding, followed by option 5 which shows complete agreement. Only a small number of respondents rated themselves at the lowest levels of understanding. This distribution suggests that most MSME actors have a fairly good awareness of digital taxation, although a segment still demonstrates moderate or limited comprehension.

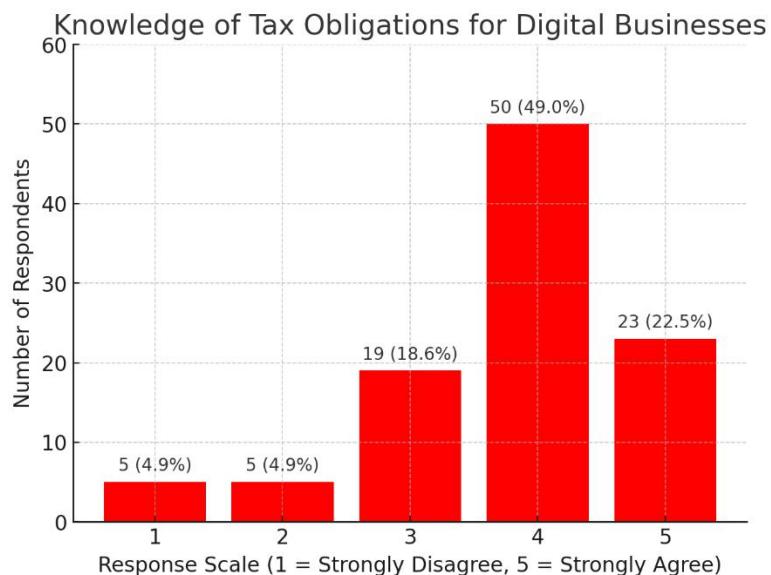


Figure 2. Knowledge of Tax Obligations for Digital Businesses

Figure 2 displays respondents' knowledge of tax obligations related to digital businesses. Almost half of the participants selected option 4, reflecting a strong understanding, while about one fifth expressed complete agreement at level 5. Only a small fraction indicated very limited awareness at levels 1 and 2. These results suggest that most MSME actors have a solid grasp of their tax responsibilities in the digital sector, although some still require further clarification and guidance.

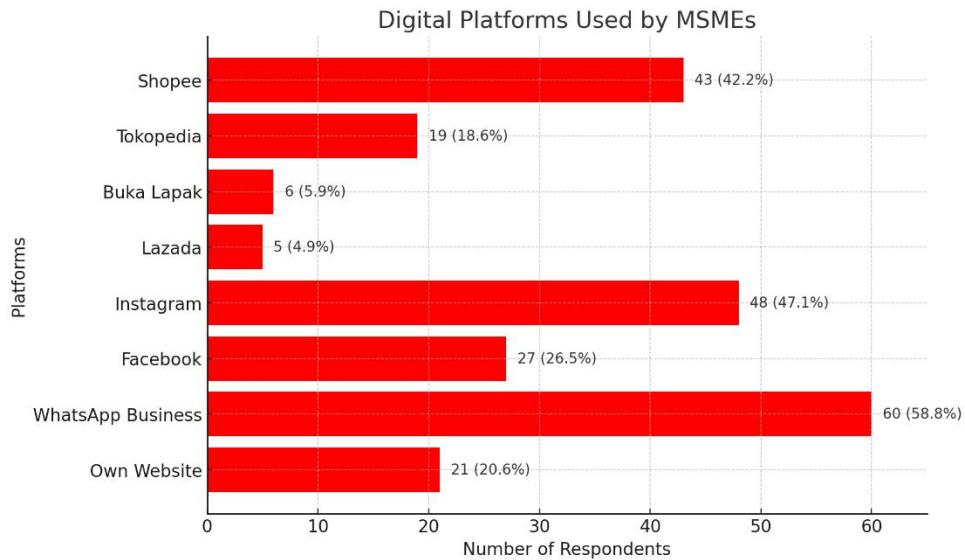


Figure 3. Digital Platforms Used by MSMEs

Figure 3 illustrates the digital platforms most frequently used by MSMEs. WhatsApp Business emerges as the dominant platform, chosen by more than half of the respondents, followed closely by Instagram and Shopee. Facebook and self-owned websites also appear as significant channels, while Tokopedia shows moderate adoption. In contrast, platforms such as Buka Lapak and Lazada are less utilized. These results indicate that MSMEs tend to favor platforms that combine ease of communication, broad market reach, and direct interaction with customers.

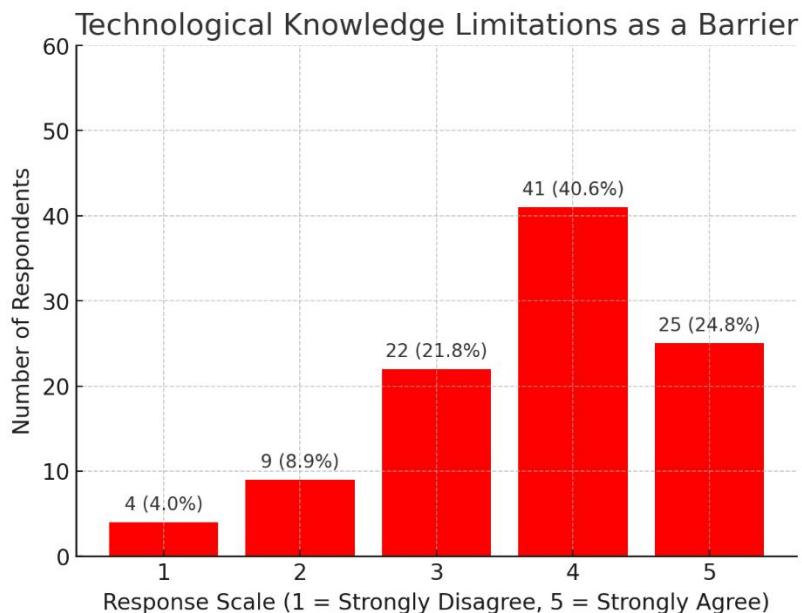


Figure 4. Technological Knowledge Limitations as a Barrier

Figure 4 illustrates respondents' perceptions regarding technological knowledge as a barrier in adopting digital taxation. Most participants agreed or strongly agreed that limited technological skills create obstacles, with the largest proportion selecting level 4 on the scale. Nearly one quarter of respondents strongly affirmed this issue at level 5. Only a small fraction disagreed, suggesting that technological capability remains a critical challenge for many MSMEs when adapting to digital tax requirements.

Types of Business Operated by Respondents

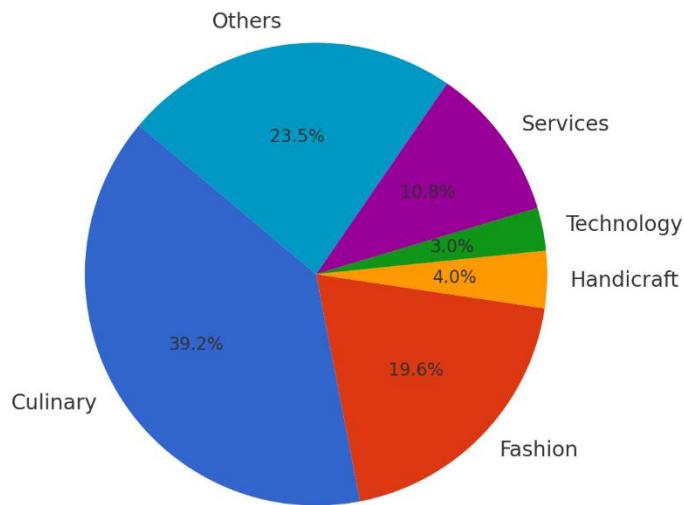


Figure 5. Types of Business Operated by Respondents

Figure 5 shows the distribution of business types operated by MSME respondents. Culinary businesses represent the largest share, accounting for nearly two-fifths of the total. Fashion follows as the second most common sector, while services and other businesses also contribute significantly. Handicraft and technology-based enterprises make up only a small proportion of the respondents. This composition highlights the dominance of traditional sectors such as culinary and fashion, while also reflecting the gradual diversification of MSMEs into services and digital-based ventures.

CONCLUSION

This study concludes that digital taxation plays a significant role in shaping the growth and sustainability of micro, small, and medium enterprises in Indonesia. The findings reveal that understanding, implementation, and perceived business impact of digital taxation are strongly associated with enterprise development. More importantly, the research highlights that successful adoption depends not only on knowledge of the system but also on the ability of entrepreneurs to integrate tax compliance into daily business practices. The evidence suggests that digital taxation has created opportunities for MSMEs to enhance credibility, expand market access, and improve administrative efficiency. At the same time, the challenges of technological literacy, regulatory complexity, and adaptation costs continue to hinder some business actors, especially those with limited resources. These barriers emphasize the importance of tailored support programs, ranging from financial incentives to targeted education and mentoring initiatives. Policymakers and practitioners should view digital taxation not merely as a fiscal tool but also as a developmental mechanism that can strengthen inclusivity and competitiveness. By addressing internal limitations and external threats, while leveraging the opportunities provided by the digital economy, Indonesia can ensure that digital tax systems contribute positively to long-term business resilience and national economic growth.

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