

## Tax Policy Innovations for Enhancing MSMEs Compliance and Economic Resilience

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### ABSTRACT

Tax policy innovation plays an important role in strengthening economic resilience, especially amidst global challenges and economic crises. However, the low level of tax compliance and challenges to economic resilience make this problem need to be addressed immediately. This study aims to identify innovative tax policies and their impact on MSME tax compliance and economic resilience using a systematic literature review approach and bibliometric analysis with VOSviewer. Data were collected from reputable international journal articles published over the past five years, with selection criteria relevant to the topic of tax policy innovation and MSMEs. The results of the analysis show that digitalization of the tax system, such as e-filing and e-payment, can increase the efficiency of tax administration and transparency that supports increased tax compliance. In addition, a simplified tax rate policy, especially based on turnover, makes it easier for MSMEs to fulfill their tax obligations.

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the global economy, especially in developing countries. MSMEs are not only the main source of job creation, but also contribute significantly to Gross Domestic Product and economic resilience. Based on data from the Ministry of Finance (2022), MSMEs contribute more than 97% of total employment and around 40% of GDP in developing countries. The existence of MSMEs plays a very important role in job creation, poverty alleviation, and local economic empowerment. However, despite its vital role, this sector faces various challenges, especially in terms of tax compliance. MSME tax non-compliance can be caused by various factors, ranging from administrative difficulties to a lack of understanding of the existing tax system. According to Ernest et al (2022), the level of tax compliance among MSMEs is often lower than that of large companies. This is due to a lack of understanding of tax policies, limited resources, and the complexity of existing tax administration. This condition worsens the ability of MSMEs to develop optimally, thus limiting their contribution to the national economy.

Although existing tax policies aim to support the MSME sector, many policies have not been effective in improving tax compliance. One of the main challenges is the gap between policies designed by the government and the reality faced by MSMEs in their implementation. Some tax policies tend to be too complicated, less relevant to the characteristics of MSMEs, or do not take into account the limitations of MSMEs. As a result, the level of tax compliance remains low, which in turn affects long-term economic resilience. In this context, tax policy innovation plays an important role in improving MSME tax compliance. By simplifying the tax system, providing relevant incentives, and utilizing digital technology, the government can encourage higher levels of compliance among MSMEs while strengthening MSME economic resilience such as the introduction of digital tax platforms, tax rate reductions for small businesses, and simplification of the tax reporting process that have been successfully implemented in several countries. However, the effectiveness of these measures depends heavily on the local context, implementation strategy, and the extent to which the policies are in line with the needs of MSMEs.

Research conducted by Agusti & Rahman (2023) shows that the level of tax compliance of MSMEs is often lower than that of large companies, which is influenced by factors such as low tax literacy, limited resources, and the complexity of the tax system. Technology-based tax policy innovation has been identified as one of the potential solutions to improve MSME tax compliance. The use of technology such as digital tax payment systems and application-based reporting platforms can simplify the tax administration process while increasing transparency. Developing countries such as India and Kenya have successfully implemented digital tax systems that enable MSMEs, including those in remote areas, to report and pay taxes more efficiently. Research by (Mascagni et al., 2021) also highlights that this technology enables the government to monitor tax compliance more effectively.

In addition to technology, fiscal incentives are also an important element in tax policies that support MSMEs. A study by Nuryanah et al (2023) confirmed

that incentives such as tax rate reductions or tax exemptions for MSMEs with a certain turnover can encourage compliance levels. However, the success of this policy requires support in the form of adequate education for MSME actors so that they understand the benefits of tax compliance. Although tax policy innovations have been widely implemented, implementation challenges remain. Research by (Saifurrahman & Kassim, 2024) shows that the incompatibility of policies with the characteristics of MSMEs is often an obstacle. Policies that are too complex or require an in-depth understanding of taxation are difficult for MSMEs to access with limited human resources. Therefore, effective tax policies need to be designed to be more adaptive to the needs and capacities of MSMEs, and accompanied by adequate training and support.

This study aims to evaluate tax policy innovations that can improve MSME compliance and support economic resilience. Using the Systematic Literature Review (SLR) method and bibliometric analysis tools such as VOSviewer, this study will identify trends and relationships between concepts in the current literature, and evaluate the impact of these policies on MSMEs in various countries. This approach is expected to provide practical recommendations for policymakers to design more effective, adaptive, and sustainable tax policies so that this study can provide deeper insights into the role of tax policy in supporting MSMEs as the main pillar of global economic recovery. By focusing on innovation and technology-based approaches, this study is expected to strengthen the contribution of MSMEs to long-term economic resilience.

## **LITERATURE REVIEW**

### ***Economic Resilience***

Economic resilience refers to the ability of an economy to withstand and adapt to external shocks, such as financial crises, natural disasters, or global pandemics. Various studies have shown that the main factors influencing economic resilience include fiscal and monetary policy flexibility, economic diversification, and innovation and technological capacity (Wang & Wei, 2021). Other studies highlight the role of strong institutions and good governance in enhancing economic resilience by ensuring macroeconomic stability and sustainable development (Oprisan et al., 2023). In addition, economic digitalization and technology-based industrial transformation have been shown to enhance economic resilience by accelerating business adaptation and creating new jobs.

### ***MSMEs***

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the economy by creating jobs, driving innovation, and increasing economic inclusion. Studies have shown that MSMEs contribute a significant portion to GDP in many developing and developed countries, while also being a major driver of local economic growth (Irawan & Sukiyono, 2021). However, challenges faced by MSMEs include limited access to finance, low technology adoption, and lack of managerial and innovation capacity. Digitalization and technological transformation have become key factors in increasing the competitiveness of MSMEs, especially in terms of marketing, operational efficiency, and expansion

into global markets. In addition, government policies in the form of tax incentives, regulatory ease, and business mentoring programs have also been shown to contribute to increasing the sustainability of MSMEs.

### ***Tax Compliance***

Tax compliance is the level of taxpayer compliance in fulfilling tax obligations in accordance with applicable regulations. Various studies have shown that tax compliance is influenced by economic factors, tax policies, sanctions, incentives, and taxpayers' perceptions of fairness (Naslia & Yulianti, 2024). Other studies also highlight the role of technology in improving tax compliance, such as the implementation of e-Filing and e-Tax systems that simplify the reporting process and reduce the possibility of administrative errors. In addition, a behavioral-based approach has been used in tax policy to improve compliance through education and transparency of the tax system. Therefore, improving tax compliance requires a combination of strategies, including fair policies, utilization of technology, and increasing tax literacy for the community in order to create a more effective and sustainable tax system.

### ***Tax Policy Innovation***

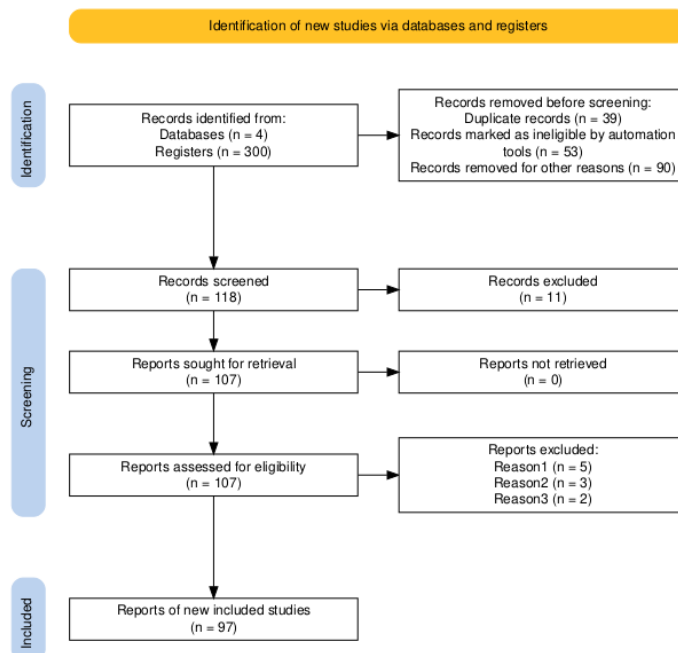
Tax Policy Innovation is a tax policy update that aims to improve the effectiveness of the tax system, encourage taxpayer compliance, and adjust regulations to developments in the digital economy and globalization. Various studies have shown that tax policy innovations, such as the implementation of technology-based taxes, environmentally based tax incentives (green taxes), and digital tax policies, can increase state revenues while encouraging sustainable economic growth (Anomah et al., 2024). On the other hand, the use of technologies such as blockchain and artificial intelligence in the tax system has also helped increase transparency and reduce tax avoidance practices (Ezeife et al., 2021). Therefore, Tax Policy Innovation must be designed with a balanced approach between state revenue needs, taxpayer compliance, and overall economic impact.

### ***Tax Digitalization***

Tax digitalization is a digital-based tax system transformation to improve efficiency, transparency, and taxpayer compliance. Several studies have shown that tax digitalization can reduce administrative costs, improve data accuracy, and minimize the potential for fraud in tax reporting (Heinemann & Stiller, 2025). In Indonesia, the implementation of the e-Filing and e-Invoice systems by the Directorate General of Taxes has shown an increase in compliance and ease of tax administration for taxpayers (Panjaitan & Rialdy, 2024). However, challenges are still faced in terms of data security, taxpayer digital literacy, and the readiness of information technology infrastructure. Therefore, optimizing tax digitalization requires adaptive policies, increased digital literacy, and more comprehensive system integration to ensure effectiveness and sustainability in digital tax management.

## METHODOLOGY

This study uses a Systematic Literature Review approach combined with bibliometric analysis using VOSviewer with reference to the PRISMA (*Preferred Reporting Items for Systematic Reviews and Meta-Analyses*) guidelines to identify, evaluate, and analyze relevant literature on innovative tax policies that can improve MSME compliance and support economic resilience. This process includes the stages of identification, screening, eligibility, and inclusion of articles, as depicted in Figure 1.



**Figure 1. PRISMA SLR Flow Diagram**

Source: Adapted from Haddaway et al (2022)

Research included in this review must meet the following inclusion criteria: (a) English-language journal articles indexed by Scopus or Web of Science, (b) Articles discussing innovative tax policies, MSME tax compliance, and the relationship between tax and economic resilience, and (c) Articles published between 2020 and 2024. Exclusion criteria include: (a) Articles in the form of editorials, comments, or short reviews, (b) Articles that do not focus on MSMEs, tax policy, or economic resilience.

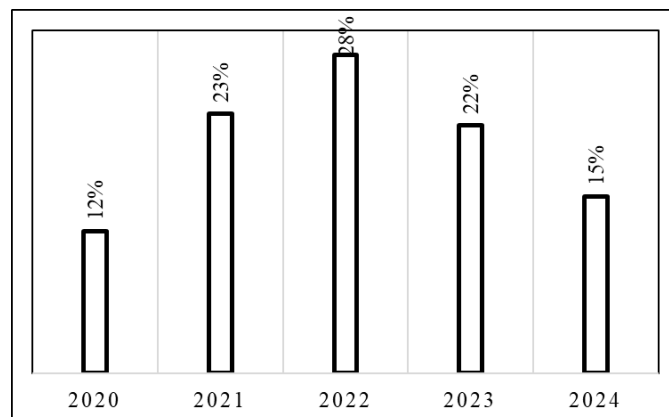
Literature search was conducted in various international academic databases such as Scopus, Google Scholar, JSTOR, and ScienceDirect from publishers such as Elsevier, Sage, Taylor & Francis, MDPI, & Emerald, which have extensive coverage of quality articles. The search focused on journal articles published in the last five years (2020-2024) to ensure relevance to current developments. Keywords used included "tax policy innovations", "MSME tax compliance", "economic resilience" and "taxation in developing countries". The search was conducted by combining the main keywords and other variations to obtain broader and more relevant literature. The study selection process followed the four stages of PRISMA: identification, screening, eligibility assessment, and inclusion. The first stage involved the removal of duplicate articles. In the second

stage, the title and abstract of each article were reviewed to determine its relevance to the topic. Eligible articles were then thoroughly evaluated through full-text review to ensure that all met the inclusion criteria. Each stage of the selection process was documented in a PRISMA flowchart to enhance transparency and accountability of the selection process. From the search process, a total of 300 articles were identified. After screening based on the inclusion and exclusion criteria, 118 articles were selected for further evaluation, of which 97 articles were eligible for final inclusion.

Once relevant literature has been collected, the next step is to use VOSviewer to analyze trends and relationships between concepts in the literature. Bibliometric data from the selected literature will be collected for analysis in VOSviewer and produce a visualization in the form of a network map that maps the relationships between key concepts. This map will help to identify key trends in the literature as well as interrelated concepts, providing a clear picture of the state of research on the topic of MSME tax policy. From the resulting visualization, patterns that emerge in the literature will be analyzed, such as the relationship between tax policy and economic resilience, as well as factors that influence MSME tax compliance. The results of the bibliometric analysis and visualization produced by VOSviewer will be interpreted to understand the practical implications for the development of more effective MSME tax policies

## RESEARCH RESULT

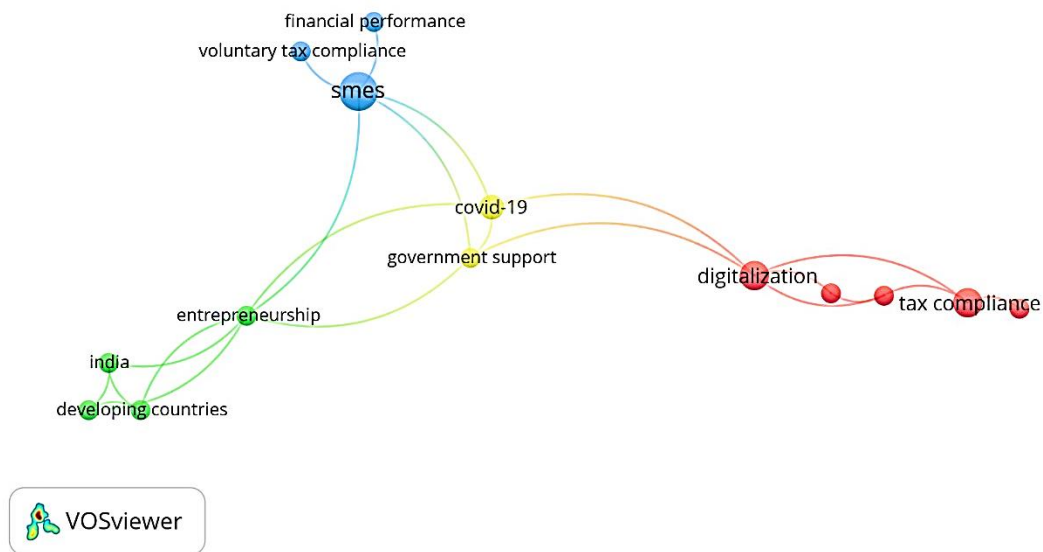
The results of the bibliometric analysis shown in Figure 2 show a trend in the number of publications focusing on tax policy innovation to improve MSME compliance and economic resilience during the period 2020 to 2024.



**Figure 2. Number of publications per year (2020–2024)**

In 2020, publications on tax policy innovations, especially in the context of MSMEs, were recorded at 12%. In 2021, there was a significant increase to 23%, almost double the previous year. This spike was influenced by the impact of the COVID-19 pandemic which encouraged research on tax policy as a tool to support economic recovery, especially for MSMEs. The peak number of publications occurred in 2022 with a contribution of 28%. This indicates a high interest in the topic of tax policy innovation, driven by the increasing importance

of digitalization in the tax system to support the efficiency and compliance of MSMEs. However, in 2023, the number of publications decreased slightly to 22%. This decrease was due to a shift in research focus to other issues related to post-pandemic economic stabilization. In 2024, the number of publications fell again to 15%, indicating the importance of encouraging further research to explore more innovative and sustainable policy solutions, especially in supporting MSME tax compliance as a pillar of economic resilience. The decrease in the number of publications in 2024 also provides an opportunity to strengthen research in this field, especially by integrating new technologies and a more adaptive approach to the needs of MSMEs in various regions. In addition, the following are the results of the analysis on VOSviewer shown in Figure 3 which shows the bibliographic keyword network.



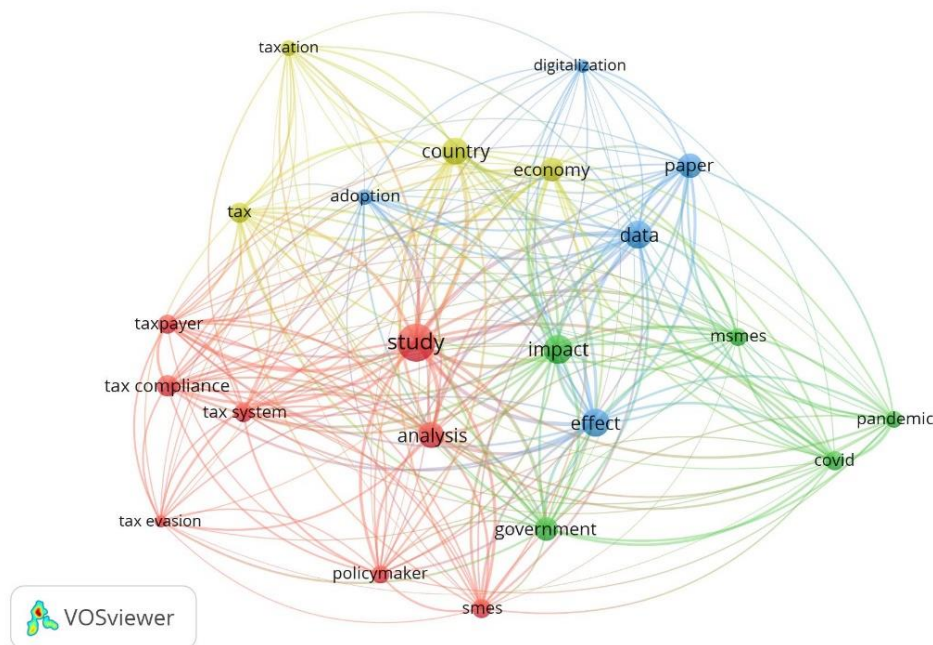
**Figure 3. Bibliographic Keyword Network**

Based on the visualization in Figure 3, there are four clusters formed. The first cluster focuses on digitalization and modern tax policies, including keywords such as "digitalization", "e-government", "information technology administration", "tax compliance", and "tax evasion". This cluster highlights the role of digital technology in improving tax administration and tax compliance, with digitalization and the implementation of electronic government considered capable of increasing the efficiency of the tax system, transparency, and accountability, while minimizing tax evasion. The second cluster raises the context of developing countries, involving keywords such as "developing countries", "entrepreneurship", and "government" which focus on the challenges and opportunities faced by developing countries in designing tax policies that support entrepreneurship. This shows the importance of the government's role in creating conducive tax policies to encourage the growth of MSMEs.

The third cluster focuses on the relationship between MSME financial performance and voluntary tax compliance, with keywords such as "financial performance", "SMEs", and "voluntary tax compliance". This cluster highlights how well-designed tax policies can support MSME financial performance, while enhancing voluntary tax compliance. This concept is important because it reflects

a positive relationship between tax authorities and taxpayers, where reasonable tax burdens and perceived economic benefits can enhance MSMEs' active participation in the tax system. The fourth cluster highlights the impact of the COVID-19 pandemic and the importance of government support, with keywords such as "COVID-19" and "government support". This cluster emphasizes how the pandemic has affected the MSME sector globally and highlights the need for innovative tax policies, such as tax incentives or financial assistance, to support economic resilience. The visualization of this keyword network demonstrates a multidimensional approach in research related to tax policy innovation to improve MSME tax compliance and strengthen economic resilience.

This bibliometric study was conducted to investigate and identify indicators related to tax policy innovation to improve MSME compliance and economic resilience. Figure 4, showing the visualization of the keyword network based on the title and abstract, shows a close relationship between keywords that reflect various important aspects in the study.



**Figure 4. Network Visualization for All Keywords Based on Title and Abstract**

The keyword "study" is the main hub in the network, indicating that this research focuses on in-depth analysis of various topics related to tax policy and its impact on MSMEs and economic resilience. Keywords such as "tax", "taxation", "tax compliance" and "tax system" have strong connections with elements such as "policy maker" and "government," reflecting that this study pays great attention to how tax policies are designed to improve taxpayer compliance. In addition, the terms "taxpayer" and "tax evasion" indicate that this study also highlights the challenges faced by the government in ensuring tax compliance in the MSME sector. The keywords "MSMEs" and "economy" are closely related to the concepts of "impact", "effect" and "resilience" which indicate the focus of the study on how tax policies can affect the economic resilience of MSMEs, especially in the context of economic recovery after the COVID-19 pandemic. The presence

of the keywords "COVID" and "pandemic" indicates that this study was conducted in a context relevant to the global crisis, where MSMEs are one of the most affected sectors.

In addition, the keywords "digitalization" and "adoption" indicate that this study also discusses digital innovation in tax policy. Digitalization plays an important role in increasing the efficiency of the tax system and making it easier for MSMEs to fulfill their tax obligations. Overall, this network visualization reflects the multidimensional relationship between tax policy, MSMEs, digitalization, and economic resilience. This study successfully identified key factors that influence the success of tax policy innovation, both from the perspective of policy makers, taxpayers, and its impact on the economy as a whole. This provides a strong foundation for developing more effective policies in the future.

## DISCUSSION

The identified tax policy innovations show strong relevance in improving MSME compliance. Tax digitalization not only simplifies the administrative process but also increases transparency, which is an important factor in building taxpayer trust. In addition, tax incentives provide space for MSMEs to survive in unstable economic conditions, thereby increasing motivation to comply with tax obligations. MSMEs play a key role in economic resilience, especially in developing countries. Tax policy innovations that support the sustainability of MSMEs have a direct impact on increasing competitiveness and national economic contribution. In India, the implementation of a digital-based tax system increased tax revenues from rural MSMEs (Ahmed & Sur, 2023). Innovative tax policies enable MSMEs to adapt to global economic pressures, such as price fluctuations and market uncertainty, thereby increasing overall economic resilience. Some of the innovative tax policies identified through the SLR and bibliometric analysis include:

### *Digital Tax Administration*

A digital-based tax administration system makes it easier for MSMEs to report and pay taxes. Research by (Acquah, 2024; Ariyanto et al., 2024) shows that the implementation of digital-based tax administration systems, such as e-filing and e-payment, significantly increases the level of tax compliance, especially in developing countries. Studies by (Bhalla et al., 2022) found that the transparency and ease of access provided by digital systems can reduce administrative costs and errors in tax reporting. Studies by (Opiso et al., 2023) stated that the use of *e-payment systems* reduces the time required to complete tax payments, which was previously considered a major obstacle for MSMEs. Studies (Alam et al., 2021) also revealed that countries such as Estonia, Australia, Switzerland, and Singapore have succeeded in achieving high efficiency in tax administration through the integration of blockchain-based technologies and *cloud computing*. According to Seepma et al (2021), digital-based systems such as e-filing not only facilitate tax reporting but also increase government transparency and accountability.

In addition, e-payment also helps in reducing the burden of tax administration on MSMEs. Research by (Onah et al., 2021) in developing countries such as Indonesia, Malaysia, Tanzania, and Nigeria shows that the implementation of e-payment has succeeded in reducing the average time for tax reporting and reducing direct interaction between taxpayers and tax officers, which is often a source of inefficiency and corruption. Studies by (Saifurrahman & Kassim, 2024) highlighted that MSMEs in developing countries face major challenges in fulfilling their tax obligations due to limited access to information and infrastructure. Studies by (Sastararuji et al., 2022) show that training and technical support in the use of digital systems, such as e-filing and e-payment, play an important role in increasing the adoption of tax technology by MSMEs. Other studies also emphasize the need for incentive policies to accelerate the process of tax digitalization.

According to (Deshmukh et al., 2022), countries that have successfully implemented a digital tax system have recorded a significant increase in state revenue from the MSME sector. The e-payment system allows real-time monitoring of transactions, which helps detect violations and increase state revenue. These studies consistently show that digitalization of the tax administration system, especially through e-filing and e-payment, not only increases efficiency and transparency, but also has a direct impact on the level of tax compliance and state revenue, especially in the MSME sector. This innovation is the main solution in facing tax challenges in the digital era.

### ***Simplification of Tax Rates for MSMEs***

The implementation of simplified tax rates, such as final tax based on turnover, has been implemented in several countries. This policy makes it easier for MSMEs to understand and comply with tax obligations. Research by (Khan & Tjaraka, 2024) evaluated the final tax policy for MSMEs in Indonesia, which sets a tax rate of 0.1% to 0.5% of turnover. Other studies (Bhalla et al., 2022) found that the tax policy succeeded in increasing the level of tax compliance among MSMEs by up to 35% in the first two years of implementation. This simplification is considered effective because it reduces the administrative burden on taxpayers while simplifying tax reporting and payment. However, the lack of tax literacy remains a major challenge. Studies by (Bucci, 2020) highlighted that turnover-based tax rates have helped small MSMEs understand and fulfill their tax obligations. In addition, the adoption of the Turnover Tax system for MSMEs, which sets progressive tax rates based on annual income, is also important to do (Mpofu, 2022). Research by (Peprah et al., 2020) shows that tax policies make it easier for MSMEs to calculate their tax obligations, thereby increasing the level of compliance.

Studies by (Nguyen, 2022) found that tax policies provide clarity for MSMEs regarding their tax obligations and reduce the risk of tax evasion. However, other studies also noted initial resistance from MSMEs that were previously not registered as taxpayers (Nartey, 2023). Tax policies have a positive impact on the tax registration rate of MSMEs, which were previously reluctant to enter the formal system (Lavic, 2023; Chen et al., 2022). Research by (Maheshkar

& Soni, 2021) shows that the implementation of a simple tax rate based on turnover has been proven to provide administrative convenience, increase compliance rates, and encourage tax inclusion in the MSME sector. In Vietnam, a tax rate of 10% of profitable turnover for 15 years allows small MSMEs to continue operating without excessive financial pressure. Studies (Asongu et al., 2021) also highlight that simple tax policies contribute to increasing tax inclusion in the informal sector. According to a study by (Nuryanah et al., 2021), the final tax rate in Indonesia not only makes tax reporting easier but also increases tax awareness among MSMEs. This policy has been widely implemented in developing countries with positive results, although it still faces challenges such as low tax literacy and resistance from informal MSMEs. Therefore, the success of this policy requires adequate support for socialization, education, and technological infrastructure.

### *Strategic Tax Incentives*

During the COVID-19 pandemic, many governments have provided tax relief as an effort to support MSMEs in dealing with economic pressures. Prasetyo et al (2020) examined the effect of tax incentives in the form of a 6-month final Income Tax (PPh) exemption for MSMEs. Other studies have found that tax incentives improve the sustainability of MSME businesses, especially in the trade and manufacturing sectors. The results of the study (Ehsan, 2021) show that tax incentives have a positive impact on MSME cash flow, thereby helping them retain their workforce. A study by (Supari & Anton, 2022) found that tax incentives succeeded in reducing the MSME bankruptcy rate by 25% in the first year of the pandemic. In addition, studies by (Asefa, 2023) highlighted the impact of the Payroll Tax Deferral policy in developing countries during the pandemic. This study shows that this tax relief helps MSMEs maintain short-term financial stability. However, many MSMEs have difficulty understanding the policy requirements and procedures, indicating the need for better tax education programs (Agusti & Rahman, 2022). A study by (Sharma et al., 2024) found that this policy motivated MSMEs to continue investing in productive assets, thereby increasing productivity amidst the crisis.

According to research by (Jayeola et al., 2022), countries such as Malaysia and Thailand have provided tax exemptions for MSMEs for several years. The study shows that the policy has succeeded in reducing financial pressures for MSMEs in the manufacturing and service sectors. However, the study also found that informal MSMEs have difficulty accessing the benefits of the policy due to lack of official documentation. Research by (Khambule, 2021) examined tax relief programs for MSMEs in East Africa and Southern Africa. These policies include tax cuts and tax breaks for sectors affected by the pandemic. The study found that the programs helped MSMEs maintain operations, although their effectiveness was limited to formal MSMEs registered with the tax system. Tax incentives during economic crises, such as the COVID-19 pandemic, have had a positive impact in supporting the sustainability of MSMEs. Tax relief, including tax exemptions and deferrals, helps improve cash flow, maintain business continuity, and reduce the risk of bankruptcy. However, major challenges

include lack of access to information, low tax literacy, and limitations for informal MSMEs to access policy benefits.

This study provides a new contribution in understanding the relationship between tax policy innovation, MSME compliance, and economic resilience. By integrating SLR and bibliometric analysis, this study not only identifies innovative policies but also explains the trends and relevance of these policies in a global context. This research is expected to be a basis for policy makers to design more innovative and adaptive tax strategies to the needs of MSMEs, while strengthening economic resilience at the national and international levels.

## **CONCLUSIONS AND RECOMMENDATIONS**

Digitalization of the tax system, such as the implementation of e-filing and e-payment, is one of the most significant innovations in increasing administrative efficiency and tax transparency. In addition, the simplification of tax rates based on turnover makes it easier for MSMEs to fulfill their tax obligations, especially in developing countries. Tax incentive policies, such as payment deferrals or tax rate reductions, have also proven to be effective strategies in supporting the sustainability of MSMEs, especially during economic crises such as the COVID-19 pandemic. Thus, this study confirms that tax policy innovations not only increase tax compliance rates but also make a significant contribution to overall economic stability and resilience. Therefore, it is recommended that the government accelerate the digitalization of the tax system by developing a digital platform that is easily accessible to MSMEs. This step will increase efficiency and accessibility in fulfilling tax obligations. More targeted tax incentives need to be given to strategic sectors that have great potential in supporting economic recovery. In addition, the simplification of tax policies for MSMEs must be prioritized with simple and transparent administrative procedures. The government also needs to develop a tax literacy program targeting MSMEs, in order to increase their awareness and understanding of the benefits of tax compliance for business sustainability.

## **ADVANCE RESEARCH**

Further research is recommended to examine the specific impacts of tax policy innovations on various MSME sectors at the regional and global levels, as well as to develop quantitative models based on real-time data to further validate these findings.

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