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The Impact of Tax Regulation Changes on the Business Sector

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Abstract

Changes in tax regulations in Indonesia, especially following the enactment of the Law on the Harmonization of Tax Regulations (HPP Law), have had a significant impact on the business sector. This study aims to identify and analyze business actors' responses to tax policy changes using a descriptive qualitative approach through interviews and document studies. The findings highlight four main themes: increasing administrative burden and the need for HR adaptation, changes in business strategies in response to rate adjustments and fiscal incentives, regulatory uncertainty affecting the investment climate, and business actors' perceptions of government policy effectiveness. MSMEs are the most vulnerable group due to limited resources and access to information. Although reforms such as digitalized reporting systems and incentives are seen positively, implementation still faces challenges in coordination and outreach. Therefore, inclusive transition policies and open dialogue between the government and businesses are necessary to create a fair, efficient, and growth-supportive tax system.

Keywords: *Tax Regulation, Business Sector, Compliance, Msmes, Business Strategy, Investment Climate*

INTRODUCTION

Taxes are one of the main pillars in state financing. Through tax revenues, the government can fund various development programs such as infrastructure, education, and healthcare. However, the function of taxation goes beyond merely collecting funds; it also serves as an economic policy instrument that can guide the behavior of businesses and society. The government can regulate tax rates, provide incentives, and set specific provisions to encourage certain sectors, balance income distribution, and maintain national economic stability.

In the current era of globalization and digitalization, tax systems face increasing pressure to adapt to modern developments. Changes in tax regulations such as rate adjustments and the expansion of taxable objects, as well as the implementation of technology in tax administration have become inevitable. Kustiwi (2024) stated that managerial involvement and the use of technology, such as artificial intelligence, significantly impact the effectiveness of accounting information systems, which in turn influence compliance with regulations, including tax laws. In the business context, the effectiveness of information systems plays a critical role in a company's ability to manage its tax obligations accurately and efficiently.

Tax policy changes also directly affect a company’s financial performance. Sari and Setiawan (2023) found that reductions in corporate income tax (CIT) rates can improve liquidity, while increases in value-added tax (VAT) rates tend to reduce profitability. This indicates that tax rate changes should be designed with consideration for the financial structure of business actors to avoid excessive pressure, especially in strategic sectors. On the other hand, administrative ease within the tax system also contributes to improved taxpayer compliance. Rahmawati (2024) demonstrated that the simplification of reporting and monitoring systems in tax reform positively influences taxpayers’ willingness to meet their obligations.

Challenges also arise in the rapidly growing digital economy. Digital business models introduce new complexities for tax authorities, such as difficulties in accurately identifying tax subjects and objects. Putri (2023) revealed that tax regulations in the digital sector often lag behind technological developments, creating legal uncertainty for digital businesses. Furthermore, the limited digital infrastructure within tax agencies also hinders optimal implementation of digital taxation.

The impact of tax regulation changes is also strongly felt by Micro, Small, and Medium Enterprises (MSMEs). Lestari (2023) explained that MSMEs often struggle to understand and adapt to policy changes, especially those related to rates and reporting procedures. Limited resources make it difficult for many MSMEs to access information and utilize digital tax systems, potentially increasing compliance burdens. Therefore, overly complex or poorly socialized tax regulations can become significant barriers to MSME growth.

Overall, changes in tax regulations have dual impacts on the business sector. On one hand, tax reforms can offer opportunities through fiscal incentives, administrative simplification, and increased legal certainty. On the other, unplanned or non-inclusive changes may increase compliance burdens and hinder economic activity, particularly in the informal sector and MSMEs. Therefore, synergy between the government, business actors, and the public is needed to understand and anticipate the impact of tax regulations, so that Indonesia’s tax system can develop inclusively and sustainably.

METHOD

This study employs a descriptive qualitative approach to gain an in-depth understanding of the impact of changes in tax regulations on the business sector. This approach enables researchers to explore the perceptions and responses of business actors to continuously evolving tax policies. The data used consist of primary data obtained through semi-structured interviews with business actors from various sectors (trade, services, manufacturing, and MSMEs) as well as secondary data such as the latest tax regulations (e.g., the Harmonized Tax Law), reports from the Directorate General of Taxes, academic journals, and other official publications.

Data collection was conducted through both in-person and online interviews with 5–10 respondents selected purposively, along with a document study of relevant regulations and literature. The data were analyzed using a thematic approach, organizing findings into themes such as compliance, administrative burden, and impacts on business strategy. To ensure validity, data triangulation was performed between interview results and supporting written sources.

RESULTS AND DISCUSSION

Based on in-depth interviews with business actors and a review of relevant documents on tax policy, four main themes emerged that reflect the substantive impact of tax regulation changes particularly after the enactment of the Law on the Harmonization of Tax Regulations (HPP Law) on the business sector in Indonesia.

1. Compliance and Administrative Burden

Changes in tax regulations have a direct impact on taxpayer compliance levels and the administrative burden borne by businesses. The majority of respondents stated that following the implementation of the HPP Law, particularly with the introduction of digital reporting systems such as e-Faktur, e-Bupot, and the integration of DJP Online applications, they faced significant challenges during the initial adaptation process. While digital systems offer long-term efficiency, their initial implementation required retraining of human resources (HR) and adjustments to internal company systems. This led to a temporary spike in operational costs, especially for small and medium enterprises (MSMEs) that have limited access to technology, HR, and information. They also felt pressured by stricter reporting obligations, without procedural simplification that matches their capacity. This situation highlights the need for more comprehensive transitional policies and assistance so that digital transformation in the tax sector does not inadvertently create compliance barriers.

2. Changes in Business Strategy

Tax regulations affect not only administrative processes but also drive broader changes in business strategy. One of the most evident impacts is price and cost structure adjustments due to the increase in Value Added Tax (VAT) rates. The manufacturing sector particularly food and beverage industries that are highly price-sensitive responded with operational efficiency strategies, including reducing production costs, relocating facilities, and innovating with alternative raw materials. Companies with greater capacity even took advantage of fiscal incentives such as the super deduction tax which provides tax relief for expenses related to research and development (R&D) and vocational training to invest in innovation and human capital development. These strategies aim not only to reduce tax burdens but also to enhance long-term competitiveness. Thus, regulatory changes indirectly encourage businesses to be more adaptive and innovative in their operations.

3. Regulatory Uncertainty and Investment Climate

A critical issue that emerged from interviews was the sense of regulatory uncertainty experienced by the business community. Several respondents expressed concern over inconsistent implementation of tax rules, especially between regions or between central and regional tax offices. Differing interpretations of the same provisions by tax officials caused confusion and legal risk for businesses. This situation has direct consequences for the investment climate, where companies both domestic and foreign tend to delay business expansion while awaiting regulatory clarity and certainty regarding fiscal treatment. In the long run, this could diminish Indonesia's attractiveness as a competitive investment destination. The business sector hopes the government can harmonize the implementation of tax policies nationally and strengthen inter-agency coordination mechanisms to reduce fragmentation in rule enforcement.

4. Perceptions of Government and Room for Participation

Although there are criticisms of the complexity of new regulations, in general, business actors appreciate the government's efforts to reform the tax system to be fairer, more transparent, and modern. The government is viewed as having demonstrated good intentions through the launch of digital systems and the provision of strategic fiscal incentives. However, business actors emphasize that the success of tax reform greatly depends on intensive, inclusive, and continuous socialization efforts. Many business sectors still feel excluded from the policy-making process, even though active participation from the business community at the early stages of regulatory drafting would increase policy relevance and strengthen their sense of ownership of the tax system. Therefore, an open dialogue forum between the government and the private sector is essential to ensure that tax policies truly reflect field needs and promote sustainable economic growth.

CONCLUSION

Changes in tax regulations in Indonesia have had a significant impact on the business sector. On one hand, reforms such as digitalization and the provision of fiscal incentives have the potential to drive efficiency and business growth. On the other hand, the complexity of regulations, lack of socialization, and uncertainty in implementation pose serious challenges especially for MSMEs and new investors.

In general, business actors have responded to these changes with adaptive strategies, both in administrative and operational aspects. The long-term success of tax reform will greatly depend on the involvement of all stakeholders, including the government, business community, and the broader public.

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