**Implementation of financial report and taxation training: performance of MSMEs in Special Regions Yogyakarta**

**Abstract**

This study aims to determine and analyze the application of financial and tax reporting records to Micro, Small and Medium Enterprises (MSMEs) and the constraints faced after attending the training. This study observed 40 MSMEs in the Special Region of Yogyakarta using a convenience sampling method. The data used are primary data obtained through interviews and focus group discussions. This research analysis tool using qualitative analysis techniques. The results showed that most of the MSMEs in the Special Region of Yogyakarta had recorded sales, purchases, supplies, salaries and other expenses. Meanwhile, reports made include reports on sales, purchases, inventory and payroll. Meanwhile, the obstacles that hinder MSMEs in implementing accounting include educational background, level of understanding, and never having attended accounting training, and there is no need for an accounting application. In addition, the results of this study are that actors are expected to increase technical knowledge for entrepreneurs in understanding their tax obligations, namely how to fill SPT, especially income tax for MSMEs and tax administration which should be done.

**Keywords**: Financial Training, Taxation Training and Competitive Advantage

**Introduction**

Financial report is information that produces reports to interested parties regarding economic activities and company performance conditions. Until now, there are still many Micro, Small and Medium Enterprises (MSMEs) that support the nation's economy that has not implemented accounting in running their businesses. The other side of the tax knowledge training for MSMEs is one step to improve the abilities of entrepreneurs. Taxes are one of the primary sources of state revenue so that the government makes every effort to achieve the tax target. Taxes are a tool to discipline the state. Sudiartana (2011) mentions some of the causes are the fact that the Directorate General of Taxes (DJP) is more focused on large taxpayers, while supervision of MSME actors has not been optimally carried out and tax compliance of MSME actors is still low.

Based on field observations, in the Special Region of Yogyakarta, most MSME players, especially the creative industry, have problems in terms of administration and financial reports so that they do not have bookkeeping reports that comply with accounting standards. This is due to the development of MSMEs that started from individual businesses, which then developed and took the form of small and medium scale entities. However, the method of calculating payable taxes is difficult for Micro, Small and Medium Enterprises (MSMEs) with low recording or accounting skills (Anggraini and Nasution, 2013).

A good understanding of the basic concepts of finance means that when making decisions about finances there will be no problems in the future so that they can show healthy financial behaviour to determine priority needs, not just wants (Xu and Zia, 2012). In high-income countries, financial literacy is seen as a complement to consumer protection. Whereas in low-income countries, financial outreach is much more limited. The role of financial literacy that will help developing countries to focus more on increasing access to finance and financial services.

In general, MSMEs often experience delays in their development. This delay is due to various conventional problems that have not been resolved completely (closed-loop problems), such as problems with human resource capacity, ownership, financing, marketing and various other problems related to business management, so that MSMEs find it difficult to compete with large companies. MSMEs in the creative industry tend to have a short-term orientation in making business decisions. Therefore, strategic efforts are needed to increase the competitive advantage of MSMEs. One of the ways that can be done is by enriching the knowledge of MSME players with financial knowledge so that management and accountability can be better accounted for as befits a large company (Resmi et al*.*, 2019).

Several studies have produced positive findings of the importance of MSMEs in financial literacy and taxation. MSMEs that have a good understanding of finance and taxation generate business growth (Clark, 2014) and competitive advantage (Bayrakdaroğlua, 2014) recommending the importance of financial literacy in MSME managers with financial training. Managers with higher levels of financial literacy show more significant participation in financial markets (Kotzè and Smit, 2008).

Currently, there are still many MSMEs that have not applied the recording of their business financial statements to some extent which has an impact on the difficulty of obtaining soft credit from financial institutions (Wise, 2013). Apart from that, the need for preparing financial reports for SMEs is not only for the ease of obtaining credit from creditors but for controlling assets, liabilities and capital as well as income planning and cost efficiency that occurs ultimately as a tool for corporate decision making (Murillo et al., 2020).

However, it is well known that the large tax potential in MSMEs cannot be optimized due to the lack of socialization and a lack of understanding by MSME actors about taxation. In addition, of course, there are MSME actors who are somewhat familiar with taxation but are still hesitant to pay taxes in an orderly manner. This administrative order is a concern that the charge of paying taxes will demand order in administration. This demand for orderly administration is something that is feared by MSME actors. For this reason, it is necessary to slowly but consistently provide assistance and guidance to MSMEs, especially regarding the recording of financial and tax reports (Sandra et al., 2019; Ningrum et al.*,* 2019).

**Literature Review**

Given the significant role of the MSMEs sector in the national economy, it is very interesting if we look at the data on the small number of tax payments from this sector. Although the MSMEs score contributed more than half of the total GDP, the contribution to total tax revenue was only around 5%. Most of the tax revenue is dominated by large taxpayers, who account for approximately 1%. Factors such as low tax knowledge (Clark, 2014). Lack of government socialization regarding tax provisions and incentives for MSMEs as well as low levels of awareness and tax compliance are suspected to be the causes of the immense economic potential that has not been extracted into state tax revenue (Grande et al., 2011). Withdrawing taxes from the public, including from MSMEs, is not an easy matter. The low compliance of taxpayers must be addressed with the right strategy to optimize tax revenue while still paying attention to low compliance costs. Several reasons related to the low tax compliance among MSMEs include: MSMEs actors are dominated by home industries that are less or even less concerned with applicable regulations, including tax regulations. One of the reasons for this ignorance is a lack of understanding of the applicable provisions; MSMEs actors are independent businesses that have characteristics less obedient than employees whose taxes have been deducted directly from their salaries. Even for taxpayers who report SPT, the absence of comparative data held by the Tax Office makes it challanging to know the correct level of the SPT submitted (Suryarini et al., 2019).

The level of financial literacy from an individual or family point of view can have an impact on the ability to have long-term savings that are used to own assets (such as land or a house), the fulfilment of higher education and old age (pension) funds. Ineffective money management will have an impact on the family's financial crisis (Braunstein and Welch, 2002). These findings can also be adapted for companies. In this case, MSMEs that have good financial literacy will be able to achieve their company goals, have a business development orientation and be able to survive in difficult economic conditions. In the business and entrepreneurship literature, lack of knowledge and access to financial resources has been associated with the inability of companies to achieve goals (Beck et al., 2005; Hutchinson and Xavier, 2006; Malo and Norus, 2009; Coad and Tamvada, 2012), and the manager's discretion in taking strategic action (Wiklund and Shepherd, 2003). Other literature also confirms that financial literacy and inclusion will be able to increase company growth (Forbes Insights, 2011). Some theoretical and research studies explain that maximum understanding of financial literacy tends to increase the business growth of the MSMEs. Muraga (2015) in his research used the variable of debt management, budgeting, bank service, and accounting or recording as financial literacy found that all variables of financial literacy have a positive relationship with business performance. Aribawa (2016) found that financial literacy affects performance and business sustainability of Creative MSMEs. It is also added by Lusimbo (2016) that managers with low financial literacy recorded lower, even zero business growth. The finding from Bayrakdaroğlua and Şanb (2014) explained that MSMEs in developing countries, especially Turkey, show an improvement in the financial literacy level of manager with financial training.

**Methodology**

This study used are primary data. Primary data in this study were the results of interviews and focus group discussions with the owners or managers of MSMEs. This study observed 40 MSMEs in the Special Region of Yogyakarta using a convenience sampling method. Interviews were conducted by the author using a depth interview. The analysis technique used was qualitative analysis with descriptive type. Research with qualitative analysis is research that has the characteristics of the data being stated in a natural state or as it is, without being changed in the form of symbols or numbers (Moleong, 2007). This type of descriptive research has the task of making an objective representation of the symptoms contained in the research problem. This representation is done by describing the symptoms as data or facts as they are (Bungin, 2003).

**Result and Discussion**

Knowledge sharing to MSMEs should be done not only from the government, academician, or more significant business. It is essential to understand that intra-MSME cooperation is necessary to achieve complementary capabilities (Resmi et al., 2019). Correspondingly, the issues that low-literates face are often multifaceted and highly context-dependent. Different low-literate people will encounter different problems, depending on their cultural background, educational history, vocabulary, and pre-existing skills. Because of these issues, it is challenging to provide effective learning. Traditionally, high learning effectiveness is equated with an education that focuses on desired, meaningful learning outcomes (Monticone, 2010). MSMEs will have a competitive advantage when they have good literacy in financial (Muraga, 2015). However, if MSMEs are reluctant to learn and add knowledge about financial, it could have a significant impact on their performance levels (Lusimbo, 2016). The government and universities, especially in developing countries, also need to provide support for MSMEs in various ways, such as training and mentoring (Potrich et al., 2015). It is because it will give more encouragement to manage the business seriously, can provide satisfying service to stakeholders, and able to manage company risk (Nunoo and Andoh, 2012). The inclusion of financial education into the primary and secondary school curriculum has been an enormous step forward because prevention seems to be the most effective measure. Children learn financial literacy before they have their financial responsibility or negative experience with the world of money. They will not manage financial issues until they become adults, but by then, they will already be aware of the possible risks. Thus, we can assume that the generation which takes financial education courses will be better prepared for life, and only with them will the situation in this area significantly improve (Opletalová, 2015).

Even though MSMEs only do simple bookkeeping, they still have to calculate both operational and non-operational expenses so that the actual benefits received by MSMEs. Financial training is deemed necessary for both advanced MSMEs and those who are still starting MSME businesses, not all of them make all financial reports such as profit and loss reports, earnings changes reports, financial position reports, cash flow reports and financial report notes. Some MSMEs that have good financial reports but do not calculate and pay taxes correctly. These MSMEs play a very important role in future economic progress because they can support people's lives in general. The role of MSMEs in the future is also as stabilizers and drivers of economic growth which are expected to increase the standard of living and welfare of the nation and state. The development of digital economy-based MSMEs will indirectly help the regional economy, and the development of digital economy-based MSMEs will also have a positive impact on taxation for Indonesia.

The Indonesian government is increasingly encouraging the development of MSMEs through easy access to taxation with a smaller final tax rate. The ease and simplification of the UMKM tax rules are aimed at creating administrative order, transparency, and increasing the contribution of the community, especially MSME entrepreneurs, to taxes in Indonesia (Suryarini et al., 2019).

However, ironically, the thing felt by one of the UMKM players engaged in packaged food in the city of Yogyakarta states that "Taxes are something that must be spent and are considered to get rid of bad luck."Currently, he has not processed taxes, but will take care of them later because taxes will facilitate all of his business affairs”.

Another thing is also expressed by business actors in Sleman Regency, that

"The income is still minimal if asked to pay taxes, how much will the profit be? So afraid of paying taxes”.

Joined this tax training because you wanted to know how much taxes really were. Based on the perceptions felt by business actors, tax training is needed. At the time of the socialization, he explained the importance of taxes for Indonesia's development. Although the community, if the tax is managed correctly, it will benefit development in Indonesia, especially in the Special Region of Yogyakarta. This socialization also explained the types of central and regional taxes in which the regional government would manage the regional tax for the welfare of the local community itself. The socialization is done to increase public awareness of the importance of taxes. The obedience of business actors to tax administration is also beneficial for business actors themselves in obtaining easy access to capital. Banks and other financing institutions will assess the track record of the business whether the business actor is tax compliant, including NPWP ownership, reporting compliance, and tax payment compliance. The socialization process ran smoothly and was attended by micro, small and medium enterprises. After the socialization of awareness, understanding, and compliance of MSMEs with taxes, the public began to realize the importance of taxes for development and the ease of access to capital. Participants also understand the amount of the final MSME tax rate of 0.5% of Gross Income according to Government Regulation PP23 / 2018 concerning Income Taxes from Businesses Received or Obtained by Taxpayers with Certain Gross Turnover.

Tax awareness has been understood by several MSME business actors in Kulonprogo Regency or in Sleman Regency. It is stated that

"Already have an NPWP, are aware of having to pay but feel that paying taxes still makes it difficult for the administrative mechanism".

According to Suryarini et al. (2019), the potential number of MSMEs, which is quite large in Indonesia provides an opportunity for the government to get tax revenue from MSMEs. Therefore, training and assistance are needed so that the level of understanding, awareness and compliance of MSMEs with taxes increases. Tax training is essential to be carried out, considering the self-assessment system adopted by Indonesia. This system requires taxpayers to understand, have awareness, honesty, desire and ability to calculate, report and pay their taxes so that it will make it easier for MSME business actors.

The majority of UMKM actors in the Special Region of Yogyakarta are somewhat familiar with taxation but are still hesitant to pay taxes in an orderly manner. There is a concern that orderly paying taxes will demand order in tax administration. This tax administration demand is something that is feared by MSME actors. For this reason, it is necessary to slowly but consistently provide assistance and guidance to MSMEs. Training by guiding to fill in ID Billing for mass SPT payments. MSMEs are given guidance to fill in mass SPT billing IDs. The stages: (a) the device must be connected to the internet; (b) open the sse.pajak.go.id application. (c) clicking the "version 2" option; (d) fill in the data according to the available forms, including NPWP number, password, name of taxpayer, which will automatically guide to the link in question; (e) Select payment type 41128 final tax and tax type 420 tax with particuler gross circulation; (f) fill in the tax period; (g) fill in the deposit amount; and (h) click on the bottom right of "ID billing".

MSME business actors who already have an NPWP and if they have carried out their obligations regularly by submitting an annual SPT, it is said that the business actor will feel more comfortable, the business actor will know the level of profit or loss generated so that it will be easy to evaluate performance. In addition, the advantage of having an orderly tax administration and already having an NPWP is that businesses can get additional external funds. Additional external funds are one of the needs of MSMEs in developing their business. The first objective relates to provisions that require a company to fulfil its obligations, such as paying taxes, carrying out social and environmental responsibilities, and complying with labour provisions such as security and other workers' rights. Meanwhile, the second objective is more focused policy-making, such as coaching efforts, increasing technical capabilities, and financing policies for MSMEs (Xiao et al, 2015).

As previously explained, MSME owners have limited administrative capabilities and financial report preparation. Problems faced such as recording profit or loss statements, separation of capital, calculating accumulated depreciation of machines, determining prices, determining profit margins, the concept of assets and capital are obstacles for MSME actors. With these limitations, MSME owners are required to use consultant services. Sometimes the consulting services used are burdensome for MSME owners. The financial problems associated with MSMEs are slightly different from those of large-scale enterprises. Large-scale businesses generally use the accrual method in their accounting records. In contrast, MSMEs generally use a cash-based method which recognizes income and expenses when cash is received or disbursed. Financial recording and reporting are very useful for the decision-making process of a business to continue its business even though accounting provides financial information that is important for the success of MSMEs until now there are still many MSMEs that have not applied accounting in their business (Murillo et al., 2020).

Most entrepreneurs do not know the profit they will get; they answer not with the nominal rupiah figures but with tangible objects such as motorbikes, houses, or cars. This answer does not describe the actual profit the company gets because it is one of the uses of funds that may be funded from profit or even from debt or taking the owner's capital. According to Anggraeni (2015), financial literacy education is needed to be aimed at MSME owners so that business actors become more familiar with finance-related to financial management, financial recording and financial planning so that banks in Indonesia can channel more credit to these business actors. So far, the obstacles for the banking sector are low financial literacy and the absence of recording of business transactions, making it difficult for banks and business actors alike. Any additional capital disbursement will provide an injection to increase the flow of funds. The results of the research by Carpena et al*.* (2017) show that the level of financial literacy of business owners is low so that it affects the ability to manage finances.

Irregular administration is reflected in the results of the business owner's financial attitude which is only limited to recording business financial receipts and expenditures without being accompanied by the storage of supporting documents (Di Girolamo et al., 2015). So far, business owners have never made a budget as a basis for evaluating their business performance. In addition, the ability of business owners to manage cash surpluses and deficits shows that the majority use banking or non-banking services. They are not yet at the stage of investing in financial products. Training on procedures for preparing financial reports by financial accounting standards is a form of improving the quality of financial statement, which will have an impact in increasing the credibility of MSME financial reports. Training on the understanding of financial reporting based on Financial Accounting Standards can help MSME players prepare their financial reports appropriately so that they can quickly gain access to capital from banks. In addition, it can help MSMEs achieve financial literacy so that UMKM players can optimize every opportunity that exists in the financial industry to maximize their performance to create advanced, independent and modern Indonesian MSMEs, and be able to access financial industry funding sources.

**Conclusion**

The results showed that most of the MSMEs in the Special Region of Yogyakarta had recorded sales, purchases, supplies, salaries and other expenses. Meanwhile, reports made include reports on sales, purchases, inventory and payroll. Meanwhile, the obstacles that hinder MSMEs in implementing accounting include educational background, level of understanding, and never having attended accounting training, and there is no need for an accounting application. In addition, the results of this study are that actors are expected to increase technical knowledge for entrepreneurs in understanding their tax obligations, namely how to fill SPT, especially income tax for MSMEs and tax administration which should be done.

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