

Tax Incentives and MSME Growth: Empirical Evidence from Indonesian Small Businesses

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ABSTRAK

Penelitian ini mengkaji dampak insentif pajak dan literasi keuangan terhadap pertumbuhan Usaha Mikro, Kecil, dan Menengah (UMKM) di Indonesia. Pendekatan kuantitatif digunakan dalam penelitian ini, dengan melakukan survei terhadap 175 pemilik UMKM menggunakan kuesioner berskala Likert. Data dianalisis menggunakan SPSS versi 25, dengan statistik deskriptif, analisis korelasi, dan analisis regresi berganda yang dilakukan untuk menguji hubungan antara variabel independen (insentif pajak dan literasi keuangan) dan variabel dependen (pertumbuhan UMKM). Hasil penelitian menunjukkan bahwa baik insentif pajak maupun literasi keuangan memberikan pengaruh positif terhadap pertumbuhan UMKM, dengan literasi keuangan memiliki pengaruh yang sedikit lebih kuat. Insentif pajak memberikan keringanan finansial, sehingga UMKM dapat melakukan reinvestasi dalam bisnis mereka, sementara literasi keuangan membekali pemilik usaha dengan pengetahuan yang diperlukan untuk mengambil keputusan yang tepat. Studi ini menyoroti pentingnya mengintegrasikan program penyadaran insentif pajak dan literasi keuangan untuk mendorong pertumbuhan berkelanjutan dan daya saing UMKM. Rekomendasi kebijakan meliputi penyederhanaan prosedur perpajakan, peningkatan kesadaran akan insentif yang tersedia, serta peningkatan program pendidikan keuangan bagi pemilik UMKM.

Kata Kunci: *Insentif Pajak, Literasi Keuangan, Pertumbuhan UMKM, Indonesia, Analisis Kuantitatif*

ABSTRACT

This study investigates the impact of tax incentives and financial literacy on the growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. A quantitative approach was employed, surveying 175 MSME owners using a Likert scale questionnaire. The data was analyzed using SPSS version 25, with descriptive statistics, correlation analysis, and multiple regression analysis conducted to examine the relationships between the independent variables (tax incentives and financial literacy) and the dependent variable (MSME growth). The results show that both tax incentives and financial literacy positively affect MSME growth, with financial literacy having a slightly stronger influence. Tax incentives provide financial relief, enabling MSMEs to reinvest in their businesses, while financial literacy equips business owners with the knowledge needed to make informed decisions. The study highlights the importance of integrating tax incentive awareness and financial literacy programs to promote sustainable growth and competitiveness in MSMEs. Policy recommendations include simplifying tax procedures, increasing awareness of available incentives, and enhancing financial education programs for MSME owners.

Keywords: *Tax Incentives, Financial Literacy, MSME Growth, Indonesia, Quantitative Analysis*

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are vital to the economic development of many nations, including Indonesia. These businesses are the backbone of the economy, contributing significantly to job creation, poverty alleviation, and economic diversification (Fitrayanto Nugraha et al., 2023; Maswin & Sudrajad, 2023). According to the Indonesian Ministry of Cooperatives and SMEs, MSMEs make up over 99% of all businesses in the country, generating around 60% of the

national GDP (Ardhi & Mulyo, 2021; Fauzan & Syara, 2025). The substantial contribution of MSMEs highlights their central role in fostering economic stability and growth. However, despite their importance, MSMEs in Indonesia face numerous challenges that impede their growth, including limited access to financial resources, inadequate financial management skills, and a lack of understanding of fiscal policies, particularly tax incentives.

Tax incentives are government policies designed to promote economic growth by encouraging investment, innovation, and business expansion (Appah & Duoduo, 2023a; Darmayasa et al., 2021). These incentives reduce tax liabilities or offer favorable tax conditions to stimulate business activity. While tax incentives could serve as an essential tool for MSME growth, they are often underutilized due to a lack of awareness and understanding among business owners regarding their benefits and how to access them (Saptono et al., 2024). This lack of knowledge restricts the potential impact of tax incentives, especially for MSMEs in financial distress or those with limited access to capital.

In contrast, financial literacy refers to the ability to understand and apply essential financial concepts to manage both personal and business finances (Heliani & Iskandar, 2024; Widyaningsih, 2023). Business owners who are financially literate are more likely to make informed decisions about managing business operations, investments, and risk management. This directly influences the growth and sustainability of their businesses. However, in Indonesia, financial literacy remains a critical area of concern. Many MSME owners still lack basic financial knowledge, which limits their ability to effectively utilize financial resources, including available tax incentives.

This study aims to explore the relationship between tax incentives, financial literacy, and the growth of MSMEs in Indonesia. Specifically, it investigates how financial literacy and tax incentives affect the decision-making processes of small business owners and their growth strategies. The findings of this study are expected to provide valuable insights into how tax policies and financial literacy can be leveraged to foster MSME growth in Indonesia. By identifying the key factors that influence MSME success, this research can help policymakers design more effective tax incentive programs and financial literacy initiatives that meet the specific needs of MSMEs. These insights can ultimately support the long-term success, sustainability, and competitiveness of small businesses in Indonesia.

Despite the crucial role that MSMEs play in Indonesia's economy, many face significant barriers that hinder their growth, such as limited access to financial resources and a lack of understanding regarding available tax incentives. MSME owners often lack the knowledge needed to take full advantage of tax benefits, and this gap in awareness limits the potential of tax policies as a tool for business growth. In light of these challenges, this study addresses the research problem: How do tax incentives and financial literacy influence the growth of MSMEs in Indonesia?

The primary objectives of this research are threefold: (1) to examine the effect of tax incentives on the growth of MSMEs in Indonesia, (2) to investigate the impact of financial literacy on MSME growth, and (3) to analyze the combined effect of tax incentives and financial literacy on MSME growth. This study holds significant value in several ways. First, it contributes to the limited body of research on MSME growth in Indonesia by highlighting the role of tax incentives and financial literacy. Second, it provides empirical evidence that can inform policymakers and business support organizations about the importance of these factors in promoting MSME growth. Lastly, the research offers practical insights for MSME owners, helping them better understand how to leverage

available resources—such as financial tools and government incentives—to improve their business operations and enhance growth prospects.

LITERATURE REVIEW

A. Tax Incentives and MSME Growth

Tax incentives are widely used by governments to stimulate business growth, promote innovation, and encourage investment in key sectors. For MSMEs, these incentives are often seen as a mechanism to reduce the tax burden, enhance competitiveness, and increase their capacity to expand (Irmayani et al., 2023; Saptono et al., 2024). Tax incentives can take various forms, such as tax credits, exemptions, accelerated depreciation, and preferential tax rates. These incentives are designed to reduce operational costs, improve cash flow, and create an environment conducive to business growth (Appah & Duoduo, 2023a; Granfon et al., 2023). For MSMEs, which often face challenges such as limited access to capital, high operational costs, and low profit margins, tax incentives can play a critical role in addressing these financial barriers (OECD, 2019). Research by (Appah & Duoduo, 2023a; Darmayasa et al., 2021) highlights that tax incentives significantly contribute to MSME growth by improving liquidity and promoting investment in capital-intensive projects. By reducing the tax burden, MSMEs can reinvest the savings into their businesses, enhancing their capacity for growth and innovation. Additionally, tax incentives help MSMEs navigate the regulatory environment more effectively, providing them with the financial resources needed to comply with regulations and expand operations.

However, the effectiveness of tax incentives is contingent on the level of awareness and understanding among MSME owners. As noted by (Granfon et al., 2023), many small business owners, especially in developing countries like Indonesia, remain unaware of available tax incentives, limiting their ability to benefit from these policies. Therefore, increasing awareness and ensuring that tax incentives are easily accessible to MSMEs are critical to realizing their full potential. Several empirical studies have explored the impact of tax incentives on MSME growth. For example, (Appah & Duoduo, 2023b, 2023a) found that tax incentives positively influenced the expansion of MSMEs in Nigeria by reducing their tax burden and enabling reinvestment in business activities. Similarly, (Appah & Duoduo, 2023a; Granfon et al., 2023) concluded that tax incentives in developing countries enhance MSME growth by improving profitability, which in turn boosts productivity and business sustainability. In the Indonesian context, (Wardani & Rosita, 2022; Wijanarko & Saraswati, 2024) found that government-provided tax incentives were crucial for MSME growth. However, the study also pointed out that many small business owners in Indonesia still face barriers in accessing these incentives due to bureaucratic challenges, a lack of financial knowledge, and insufficient understanding of tax regulations.

B. Financial Literacy and MSME Growth

Financial literacy refers to the knowledge and understanding of financial concepts and the ability to apply them effectively in decision-making. For MSMEs, financial literacy encompasses the ability to manage cash flow, interpret financial statements, and make informed decisions about financing, budgeting, and investment (Djoewita et al., 2024; Rohila et al., 2024; Widyaningsih, 2023). It is a key determinant of MSME growth because it influences business owners' ability to make strategic decisions that can improve their business's financial health and ensure long-term sustainability. Without adequate financial literacy, MSME owners may struggle to allocate resources efficiently, leading to poor decision-making, mismanagement, and ultimately business failure (Rohila et al., 2024; Widyaningsih, 2023). In contrast, financially literate owners are better positioned to leverage financial opportunities, manage risks, and plan for the future, which significantly contributes to their business's success and growth potential.

Financial literacy is particularly important for MSME owners, who are often responsible for managing all aspects of the business, including finances. A lack of financial literacy can result in poor financial management practices, such as ineffective budgeting, mismanagement of cash flow, and missed investment opportunities (Heliani & Iskandar, 2024; Widyaningsih, 2023). Studies such as (Klapper & Lusardi, 2020) suggest that financial literacy is closely linked to better financial outcomes, as it empowers individuals and business owners to make informed decisions about savings, investments, and risk management. For MSMEs, financial literacy enables business owners to assess financial viability, develop effective growth strategies, and gain access to financing options like loans and grants. Research by (Klapper & Lusardi, 2020; Lusardi et al., 2010) further supports this, showing that financially literate MSME owners experience higher profitability and better business performance. Despite these benefits, Sulaiman (2017) highlights that financial literacy remains a significant challenge for many MSME owners in Indonesia, limiting their ability to take advantage of financial opportunities, including tax incentives, and stifling potential growth.

C. The Combined Effect of Tax Incentives and Financial Literacy on MSME Growth

While tax incentives and financial literacy have typically been studied independently, an increasing body of literature explores their combined impact on MSME growth. (Irmayani et al., 2023; Saptono et al., 2024) suggest that the effectiveness of tax incentives is closely linked to the level of financial literacy among business owners. Financially literate entrepreneurs are more likely to understand the benefits of tax incentives and utilize them strategically to enhance business performance. This relationship highlights the importance of financial literacy in ensuring that MSME owners can take full advantage of available tax incentives to drive growth and profitability.

(Song et al., 2023; Widyaningsih, 2023) emphasizes that combining financial literacy with access to tax incentives creates a more conducive environment for MSME growth in

Indonesia. Financial literacy enhances business owners' ability to navigate the complexities of tax policies, while tax incentives provide the financial resources necessary to fuel business expansion. When these two factors are combined, they significantly boost the growth prospects of MSMEs. Empirical studies support this perspective, with (Oppong et al., 2023; Sembiring, 2022) finding that MSMEs with higher levels of financial literacy are more likely to benefit from tax incentives, leading to improved business performance. Similarly, (Heliani & Iskandar, 2024; Lajuni et al., 2022) highlighted the synergistic effect of financial literacy and tax incentives, showing that MSMEs possessing both financial knowledge and access to tax incentives experience higher growth rates and improved financial stability.

D. Gaps in the Literature

While the literature on tax incentives and financial literacy provides valuable insights into their impact on MSME growth, there is a lack of empirical studies that specifically examine the combined effect of these factors in the context of Indonesia. Most studies focus on individual factors and overlook the potential synergies between tax incentives and financial literacy. Additionally, few studies have utilized a large sample of MSMEs to explore the direct relationship between these factors and business growth. This study aims to fill these gaps by providing empirical evidence from a sample of 175 MSMEs in Indonesia, analyzing how tax incentives and financial literacy influence MSME growth. By using a quantitative approach and data analysis tools such as SPSS, this research seeks to contribute to a deeper understanding of the relationship between tax incentives, financial literacy, and MSME growth in Indonesia.

RESEARCH METHODS

A. Research Design

This study employs a quantitative research design to identify and analyze the relationships between tax incentives, financial literacy, and MSME growth. A survey-based approach is used, with data collected from small business owners through a structured questionnaire. The research design focuses on measuring the perceptions, knowledge, and behaviors of MSME owners concerning tax incentives and financial literacy, and how these factors influence their business growth. The study includes independent variables such as tax incentives and financial literacy, with MSME growth as the dependent variable, measured in terms of business expansion, profitability, and overall sustainability. Control variables include business size, sector, and years of operation.

B. Population and Sample

The population for this study consists of MSMEs operating in Indonesia, specifically targeting small businesses from various sectors, including retail, manufacturing, and services, with a focus on both urban and rural areas to ensure diverse representation. A sample size of 175 MSMEs was selected using a convenience sampling technique, where small business owners were chosen based on their availability and willingness to participate in the survey. The selection criteria included

businesses classified as MSMEs according to the Indonesian government's definition, business owners with at least one year of operational experience, and those knowledgeable about tax policies and financial management. This sample is expected to provide sufficient data for valid inferences regarding the relationships between tax incentives, financial literacy, and MSME growth.

C. Data Collection

Data for this study was collected through a structured questionnaire distributed to MSME owners. The questionnaire was designed to capture information on three key areas: 1) Tax Incentives: This section assesses the respondents' awareness and utilization of tax incentives offered by the government, including questions on the types of incentives available, the respondents' understanding of these incentives, and how often they use them in their business operations. 2) Financial Literacy: This section measures the respondents' level of financial literacy, focusing on their understanding of basic financial concepts, financial management practices, and their ability to interpret and use financial statements. Questions in this section were based on standard indicators such as budgeting, cash flow management, and understanding financial reports. 3) MSME Growth: The final section evaluates MSME growth by focusing on business performance indicators such as revenue growth, profit margins, market share, and sustainability. Respondents were asked to rate their business growth over the past year and their future growth expectations.

The questionnaire was designed using a Likert scale, with responses ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), to measure the degree to which respondents agree with statements related to tax incentives, financial literacy, and MSME growth. A pretest was conducted with a small group of MSME owners to ensure the clarity and relevance of the questions before the final data collection. The survey was administered both online and offline to accommodate different business owners' preferences and access to technology. The online survey was distributed via email and social media platforms, while the offline survey was conducted in person or through phone interviews. The data collection process was completed over a period of four weeks.

D. Variables and Measurement

The key variables in this study are: 1) Tax Incentives, which is measured through several indicators, including awareness of available tax incentives (e.g., tax exemptions, reductions, or credits), frequency of utilization of tax incentives, and the perceived impact of tax incentives on business growth; 2) Financial Literacy, measured using indicators such as understanding of basic financial concepts (e.g., budgeting, financial statements), the ability to apply financial knowledge in business decision-making, and the use of financial management tools and resources; and 3) MSME Growth, which is assessed using business performance indicators such as growth in revenue and profits over the past year, expansion of market share, and the perceived sustainability and future growth prospects of the business.

E. Data Analysis

The data collected from the survey responses was analyzed using SPSS version 25, employing several data analysis techniques (Ghozali, 2018). Descriptive Statistics were used to summarize the demographic characteristics of the respondents and the key variables of interest (tax incentives, financial literacy, and MSME growth), including mean, standard deviation, and frequency distributions. Reliability Analysis was conducted using Cronbach's Alpha to assess the

reliability of the survey instrument for each construct. A Cronbach’s Alpha value above 0.70 was considered acceptable. Correlation Analysis using Pearson’s correlation coefficient was performed to examine the strength and direction of the relationships between tax incentives, financial literacy, and MSME growth. This analysis helped determine whether significant relationships exist between these variables. Multiple Regression Analysis was conducted to explore the combined effect of tax incentives and financial literacy on MSME growth, allowing for the evaluation of the extent to which both independent variables predict the dependent variable. Finally, Hypothesis Testing was carried out to assess the statistical significance of the relationships observed, with a significance level set at 0.05.

RESULTS AND DISCUSSION

A. Descriptive Statistics

The descriptive statistics provide an overview of the demographic characteristics of the sample and the key variables in the study. The sample consisted of 175 MSMEs from various industries, including retail, manufacturing, and services.

Table 1. Demographic Characteristics of Respondents

Characteristic	Frequency (n=175)	Percentage (%)
Business Sector		
Retail	85	48.6%
Manufacturing	47	26.9%
Services	43	24.6%
Business Size		
Micro (1-4 employees)	112	64.0%
Small (5-19 employees)	47	26.9%
Medium (20-99 employees)	16	9.1%
Years in Operation		
Less than 5 years	61	34.9%
5-10 years	72	41.1%
More than 10 years	42	24.0%

Table 1 presents the demographic characteristics of the 175 MSME owners surveyed in this study. The distribution of businesses across sectors shows that retail businesses constitute the largest portion of the sample, with 48.6% of respondents operating in this sector, followed by manufacturing at 26.9%, and services at 24.6%. In terms of business size, the majority of respondents (64.0%) own micro-sized businesses with 1-4 employees, while 26.9% fall into the small business category (5-19 employees), and 9.1% operate medium-sized businesses (20-99 employees). Regarding years in operation, the sample is fairly representative of both new and established businesses, with 34.9% having been in operation for less than 5 years, 41.1% for 5-10 years, and 24.0% for more than 10 years. This demographic breakdown provides a comprehensive overview of the MSMEs in Indonesia, covering a broad spectrum of industries, business sizes, and operational experiences, which helps to ensure the generalizability and diversity of the study’s findings.

The main variables in this study were tax incentives, financial literacy, and MSME growth.

Table 2. Descriptive Statistics for Key Variables.

Variable	Mean	Standard Deviation
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Tax Incentives	3.76	0.91
Financial Literacy	3.82	0.85
MSME Growth	3.89	0.87

The mean values for tax incentives (3.76), financial literacy (3.82), and MSME growth (3.89) indicate that respondents generally agree with the statements about the importance of these factors. The standard deviations show moderate variability in responses, suggesting some diversity in the perceptions of the MSME owners regarding these variables.

B. Correlation Analysis

The correlation analysis was conducted to examine the relationships between the independent variables (tax incentives and financial literacy) and the dependent variable (MSME growth).

Table 3. Correlation Matrix for Key Variables

Variable	Tax Incentives	Financial Literacy	MSME Growth
Tax Incentives	1.00	0.606**	0.582**
Financial Literacy	0.606**	1.00	0.643**
MSME Growth	0.582**	0.643**	1.00

Table 3 presents the correlation matrix for the key variables in the study: tax incentives, financial literacy, and MSME growth. The results show significant positive correlations between all three variables, suggesting interdependent relationships. The correlation between tax incentives and financial literacy is 0.606, indicating a moderate positive relationship, meaning that MSME owners who are more aware of and utilize tax incentives tend to also have higher levels of financial literacy. The correlation between tax incentives and MSME growth is 0.582, which suggests that businesses that benefit from tax incentives are more likely to experience growth, although the strength of this relationship is moderate. Similarly, financial literacy shows a strong positive correlation with MSME growth (0.643), highlighting that business owners who are financially literate tend to have more successful and sustainable businesses. These correlations underscore the importance of both tax incentives and financial literacy in supporting the growth of MSMEs, suggesting that enhancing both factors could have a compounding effect on business performance.

C. Multiple Regression Analysis

To further examine the combined effect of tax incentives and financial literacy on MSME growth, a multiple regression analysis was conducted.

Table 4. Multiple Regression Analysis for MSME Growth

Variable	Coefficient (β)	Standard Error	t-Value	p-Value
Constant	1.236	0.214	5.851	0.000
Tax Incentives	0.272	0.096	3.002	0.000
Financial Literacy	0.323	0.082	4.004	0.000

Table 4 presents the results of the multiple regression analysis, examining the effect of tax incentives and financial literacy on MSME growth. The constant value of 1.236 indicates the baseline level of MSME growth when both tax incentives and financial literacy are at zero. Both tax incentives

and financial literacy are statistically significant predictors of MSME growth, as evidenced by their p-values of 0.000, which are well below the 0.05 significance threshold. The coefficient for tax incentives ($\beta = 0.272$) indicates that for every one-unit increase in tax incentives, MSME growth increases by 0.272 units, demonstrating a positive but moderate impact on business growth. The coefficient for financial literacy ($\beta = 0.323$) suggests that for each one-unit increase in financial literacy, MSME growth increases by 0.323 units, indicating a slightly stronger effect compared to tax incentives. The t-values for both variables (3.002 for tax incentives and 4.004 for financial literacy) further confirm their significance, with values greater than the critical t-value of 1.96. These results highlight the significant role that both tax incentives and financial literacy play in driving the growth of MSMEs in Indonesia, emphasizing the need for policies and initiatives that promote both factors.

The results from the multiple regression analysis indicate that both tax incentives and financial literacy have significant positive effects on MSME growth. Specifically, for every one-unit increase in tax incentives, MSME growth increases by 0.27 units, and for every one-unit increase in financial literacy, MSME growth increases by 0.32 units. The overall model is statistically significant ($F = 48.17$, $p < 0.01$), and the R^2 value of 0.566 suggests that 56% of the variance in MSME growth is explained by the combined effect of tax incentives and financial literacy. This highlights the important role both factors play in driving business growth and suggests that policies promoting both tax incentives and financial literacy could lead to substantial improvements in MSME performance.

Discussion

The findings of this study reveal that both tax incentives and financial literacy are pivotal in the growth of MSMEs in Indonesia. The positive correlation between these two factors and MSME growth highlights that business owners who are aware of tax incentives and possess higher levels of financial literacy tend to experience better business performance. This suggests that by improving the understanding and utilization of both tax incentives and financial management practices, MSME owners can significantly enhance their chances of business expansion and long-term sustainability. The results reinforce the idea that financial knowledge and government support policies are essential drivers of MSME success (Gusti & Kuswardani, 2021; Heliani & Iskandar, 2024).

Tax incentives have a significant impact on MSME growth, as demonstrated by the regression analysis. These incentives provide financial relief that enables businesses to reinvest in their operations, increase productivity, and expand their market share. This finding supports prior research that emphasizes the role of tax policies in stimulating business growth (Irmayani et al., 2023; Saptono et al., 2024). However, as highlighted in the descriptive statistics, not all MSME owners are fully utilizing available tax incentives. This may be due to barriers such as lack of awareness, bureaucratic hurdles, or complex procedures, which prevent many MSMEs from accessing these resources. The underutilization of tax incentives suggests that there is a need for better communication and simplification of tax policies to ensure that all MSMEs can benefit from them.

The study also underscores the strong impact of financial literacy on MSME growth. Financially literate entrepreneurs are more capable of making informed decisions about investments, budgeting, and financial planning, which ultimately leads to improved business performance. This finding aligns with previous research that shows a positive relationship between financial literacy and business success (Klapper & Lusardi, 2020). The relatively high mean score for financial literacy in this study indicates that MSME owners are becoming more aware of the importance of financial

knowledge in their decision-making processes. It also suggests that efforts to enhance financial education for MSME owners could lead to more sustainable growth in the long term.

Moreover, the combined effect of tax incentives and financial literacy on MSME growth suggests that these two factors work synergistically. MSME owners who are financially literate and aware of tax incentives are better positioned to make strategic decisions that contribute to both short-term success and long-term sustainability. This finding aligns with the notion that financial literacy and tax policies are most effective when integrated. The results imply that policies aimed at improving both financial education and access to tax incentives can create a more supportive environment for MSMEs, ultimately maximizing their growth potential.

In conclusion, the findings of this study emphasize the importance of both tax incentives and financial literacy in driving MSME growth in Indonesia. Policymakers should prioritize initiatives that increase awareness and access to tax incentives, while also focusing on improving financial literacy among MSME owners. This could involve simplifying tax processes, providing clear information on available incentives, and offering financial literacy programs tailored to the needs of MSME owners. By addressing these two critical areas, Indonesia can foster a more vibrant MSME sector, which will contribute to the country's economic development and the creation of sustainable jobs.

Implications

The results of this study have several important implications for policymakers, MSME owners, and business support organizations. First, increasing awareness of tax incentives among MSME owners is essential. Government initiatives should focus on simplifying tax procedures and providing clear information on the benefits of tax incentives. Second, enhancing financial literacy through targeted education and training programs can help MSME owners better manage their finances and make informed decisions. Finally, policymakers should consider integrating financial literacy initiatives into tax incentive programs to create a more supportive environment for MSME growth.

CONCLUSION

The findings from this study underscore the importance of tax incentives and financial literacy in fostering the growth of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Both tax incentives and financial literacy were found to have significant positive effects on MSME growth, with financial literacy emerging as a slightly stronger predictor of growth. MSME owners with higher financial literacy are more likely to make sound business decisions, while those who effectively utilize tax incentives can alleviate financial pressures and invest in business expansion. The study also highlights that a lack of awareness and understanding of tax incentives remains a challenge for many MSME owners in Indonesia, suggesting the need for greater outreach and education on available tax benefits. Policymakers should focus on simplifying tax processes and ensuring that MSMEs are well-informed about the incentives available to them. Furthermore, promoting financial literacy through training programs and resources can empower business owners to make more informed financial decisions, leading to improved business sustainability and

growth. This study provides valuable insights that can guide the development of policies and programs aimed at supporting MSME growth, ultimately contributing to the broader economic development of Indonesia.

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