

## Tax and Zakat Management for Micro Small Medium Enterprises (MSMEs) to Enhance Economic Development in Indonesia

Tatik<sup>1</sup>, Khoirina Noor Anindya<sup>2\*</sup>  
Universitas Islam Indonesia

**Corresponding Author:** Khoirina Noor Anindya [khoirina.noor.anindya@uii.ac.id](mailto:khoirina.noor.anindya@uii.ac.id)

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### ABSTRACT

The lack of knowledge about tax and zakat management experienced by MSMEs actors who are members of the Global Entrepreneur Professional (GENPRO) DIY Kedu, is an obstacle for business development. However, tax and zakat compliance carried out by MSMEs can improve economic development in Indonesia. Regular tax and zakat payments can reduce social inequality and improve community welfare. Given these obstacles, this community service activity is carried out in several stages: 1) Assessment; 2) Tax and Zakat Management Training; 3) Mentoring; and 4) Follow-Up Plan. This program has an implication for MSMEs actors who have earned ability in managing tax and zakat for business.

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the national economy, both as job providers, regional economic drivers, and pillars of national economic resilience. According to data from the Ministry of Cooperatives and SMEs, the MSME sector contributes more than 60% to Indonesia's Gross Domestic Product (GDP) and absorbs more than 97% of the workforce (Budiman, 2025). With such a significant contribution, the MSME's compliance to the state and religious financial obligations is crucial to support sustainable development and community welfare. Tax non-compliance among MSMEs is caused by several factors, one of the examples is the limited understanding of how to fulfill their tax obligations. Furthermore, some muslim entrepreneurs also believe that paying taxes is haram (forbidden by the law), arguing that "Tax officers will not come to paradise" (HR Ahmad), even though small business owners play an important role in the tax system (Kamleitner, 2012).

The government also supports tax payments in Indonesia by providing three options for filing tax returns: one is by law, using Article 17 of the Income Tax Law, the second is by a Norms Calculation; and the last is by Government Regulation Number 23 of 2018 (Mardawiyah & Surjadi, 2020). However, tax revenue remains low. Although tax policies have simplified the tax system for MSMEs, their implementation is still hampered by low levels of tax compliance and understanding (Kertojoyo, 2024).

Groups that forbid taxes often prefer to pay zakat on trade for their businesses. After paying zakat, they gain inner peace, something they don't get from paying taxes (Fidiana, 2020). MSMEs often consider paying zakat more important than paying taxes because taxes are an obligation that doesn't have direct religious value like paying zakat, which has religious value. Zakat, also known as Islamic religious tax, is one of the pillars of Islam that must be met by eligible Muslims (Saad, Aziz, & Norfaiezah, 2014).

The obligation to pay zakat in business is the responsibility of every Muslim trader who meets the prescribed conditions. If zakat funds could be well raised, the accelerate growth of the country and society might be accomplished. (Abdullah, et al., 2021). It will benefit both the donor and the recipient of zakat (Khan, 2022). But, consciousness regarding the importance of performing the obligation of paying zakat (alms) among small businesses is merely 30 percent who appeared to fulfill those responsibilities, while the rest may not even know the requirements (Noor, et al., 2017).

Confusion regarding taxes and their regulations, as well as zakat and its calculation, is also felt by MSMEs who are members of Global Entrepreneur Profesional (GENPRO). GENPRO is a community of Muslim MSMEs. The Head of GENPRO Area DIY Kedu stated that these obstacles are caused by a lack of understanding of tax management among MSMEs, which ultimately becomes a "bugbear" dealing with taxation. GENPRO members also complained of doubts in calculating the nishab and haul of trade zakat due to differences in literature obtained from social media and what should be calculated for zakat. Regarding

(Bafadhah, Rahman, & Martaliah, 2024), the property contained in the business union must be issued zakat.

Financial problems also arise when tax and zakat payments must be made when the business cash flow is deteriorating, even though previously, community service activities have been held entitled training on preparing financial reports, because MSMEs often do not prepare financial reports according to applicable standards (Tatik, 2018).

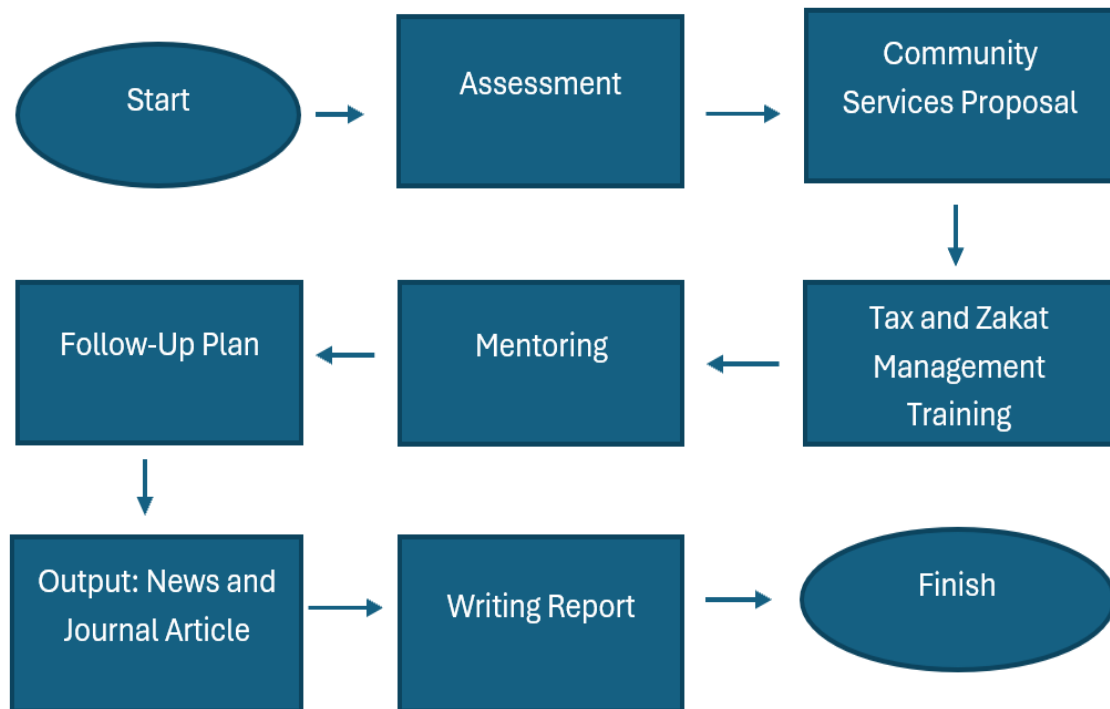
Given this reality, many MSMEs have a misunderstanding about the relationship between tax and zakat obligations. Some business owners believe that paying zakat is sufficient as a form of social contribution, thus eliminating the need to pay taxes. Conversely, others focus solely on tax obligations without considering the spiritual and social value of zakat. This imbalance can create problems in economic governance, both for the state and society.

Therefore, understanding the obligation to pay taxes and zakat proportionally is crucial. The two are not a double burden, but rather complementary instruments: taxes are oriented towards national development, while zakat is oriented towards social welfare and reducing inequality (Hajar, Amelia, & Nasir, 2023). Zakat is a source of funds to reduce poverty and thus improve social welfare. Furthermore, zakat can also be used by recipients for productive purposes (Alim, 2015). There is a positive and significant influence between productive zakat and mustahik welfare (Nasution & Prayogi, 2019); (Mawardi, Widiastuti, Musthofa, & Hakimi, 2023).

When MSMEs fulfill these two obligations, they can develop their businesses better. MSMEs who understand regulations, tax calculations, and tax incentives can increase business growth (Tweisge & Gasheja, 2019). An understandable tax system will increase the number of small enterprises functioning and impact economic development in the country (Gogol & Volot, 2017). Furthermore, by paying zakat, MSMEs also contribute to poverty reduction and improved welfare (Alim, 2015). Therefore, this community service activity focuses on tax and zakat management in Micro, Small, and Medium Enterprises (MSMEs) to enhance economic development in Indonesia.

## **IMPLEMENTATION AND METHODS**

The community service method consists of 7 stages of the method, namely Assessment; Community Services Proposal; Tax and Zakat Management Training; Mentoring; Follow-up Plan; Output; Writing Report as in the picture 1 below. But the main focus on this paper is 4-stages which are 1) Assessment; 2) Tax and Zakat Management Training; 3) Mentoring and 4) Follow-up Plan.



**Figure 1. Community Services Method**

### ***Assessment***

In this assessment process, the community service provider held a discussion with the GENPRO DIY Kedu management about accounting and financial issues among its members. The GENPRO DIY Kedu management conveyed that currently, tax management and zakat calculations are issues that have frequently complained about by members. The target of this assessment is obtaining updated data on the business profiles of GENPRO DIY Kedu members, general problems that occur in business management, and other relevant data from the community service topic. The assessment process was carried out in between the monthly business coaching meetings held regularly for GENPRO DIY Kedu members, and an evaluation discussion of the community service program for business financial management that had taken place previously.

### ***Tax and Zakat Management Training***

The tax and zakat management training will be conducted in two sessions: 1) Material on taxes and zakat from an Islamic perspective; 2) Material on MSMEs tax regulations and management, as well as calculations for Muslim entrepreneurs.

### ***Mentoring***

After the training, participants will receive mentoring and consultation from tax accounting lecturers and professionals in the field of tax and zakat who have experience in assisting MSMEs.

### ***Follow Up-Plan***

Participants, consisting of representatives from GENPRO DIY Kedu members, are expected to share the knowledge and skills they gain, both during training and through mentoring/counseling, with other members in their respective areas. The format of the activities can be tailored to the organization's resources, such as sharing seasons, short training sessions, or other activities.

## **RESULTS AND DISCUSSION**

This community service activity involved approximately 100 participants, most of whom came from Yogyakarta and Central Java, but also from outside Java, such as Makassar. The businesses run by these MSMEs are very diverse, including fashion, printing, garment manufacturing, catering, food and beverage, pharmacy, dental clinic, and informatics and technology services. This community service activity consists of four main stages: 1) Assessment; 2) Tax and Zakat Management Training; 3) Mentoring; and 4) Follow-Up Plan. The four stages are as follows:

### ***Assesment***

The assessment process was conducted during a monthly business coaching meeting held regularly for GENPRO DIY Kedu members and a discussion evaluating the previous business financial management mentoring program. The assessment revealed that GENPRO DIY Kedu members faced challenges in understanding tax and zakat management, particularly in calculating business profits.

### ***Tax and Zakat Management Traning***

Due to the limited understanding of tax and zakat management that MSMEs must comply with, this tax and zakat management training can be held. The main activities, namely tax and zakat management training, consist of two sessions: 1) Taxes and zakat from an Islamic perspective; 2) Tax regulations and zakat management. In the first session, the speaker provides an explanation of taxes and zakat from an Islamic perspective. In the second session, the speaker provides an explanation of the background of why business actors, especially MSMEs, are reluctant to pay taxes, sanctions for not paying taxes, tax management for MSMEs and its calculation. In zakat management, the speaker provides comprehensive material on the background of zakat on merchandise and how to calculate it. The diversity of the participants makes the discussion in the training lively and enjoyable because the participants not only listen but also share their business management experiences with other MSMEs actors.



**Figure 2. Discussion About the Taxes and Zakat from an Islamic Perspective**



**Figure 3. Discussion About Tax Regulations and Zakat Management**



**Figure 4. The Participants of the Community Program**

### *Mentoring*

During this mentoring program, MSMEs can consult privately on specific issues specific to their businesses. Following the consultation, the MSMEs receive two sessions of support for a full month. The first session covers technical MSME tax calculations. The second session covers calculating zakat trade goods. During the mentoring, the MSMEs can practice independently, followed by a resource person who reviews the participants' worksheets and conducts evaluations.



**Figure 5. First Session of Mentoring**



**Figure 6. Second Session of Mentoring**

### ***Follow-Up Plan***

In this follow-up plan, participants gained knowledge and skills related to tax and zakat management, particularly calculating taxes and zakat on trade goods. With this knowledge and skills, participants practiced calculating taxes and zakat for each of their businesses and ensured compliance with tax and zakat payments. Furthermore, participants shared their knowledge with fellow business owners in their home regions.

### **CONCLUSIONS AND RECOMMENDATIONS**

Compliance among MSMEs with regard to tax payments and zakat management is not yet optimal due to a lack of knowledge about tax and zakat management among MSMEs. Furthermore, there is a perception that paying zakat is more important than paying taxes. This sentiment is also felt by Muslim entrepreneurs, including those affiliated with GENPRO DIY Kedu. Therefore, a community service activity on tax and zakat management for MSMEs was implemented as an effort to strengthen tax and zakat compliance and to boost economic development in Indonesia. Through this community service activity, MSMEs gain knowledge and skills in calculating business taxes and zakat on trade goods. With orderly tax and zakat reporting, entrepreneurs can focus on scaling their businesses, which in turn contributes to economic development in Indonesia.

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