



Tax Policy on the Growth and Competitiveness of SMEs in the National Economy Sector



Maria Anastasia ✉

✉ STIE Pancasetia Banjarmasin, Kalimantan Selatan, 70248, Indonesia

Received: 2025, 01, 18 Accepted: 2025, 01, 30
Available online: 2025, 01, 31

Corresponding author. Maria Anastasia
✉ anastasiamaria330@gmail.com

KEYWORDS	ABSTRACT
<p>Keywords: Tax Policy, SMEs, Growth, Competitiveness, Digital Tax Systems.</p> <p>Conflict of Interest Statement: The author(s) declares that the research was conducted without any commercial or financial relationships that could be construed as a potential conflict of interest.</p> <p>Copyright © 2025 ATR. All rights reserved.</p>	<p>Purpose: This study examines the impact of tax policies on the growth and competitiveness of SMEs within the national economy. It aims to identify how well-structured tax frameworks, including incentives and simplified systems, can support SME performance and adaptation in an increasingly digital and globalized environment.</p> <p>Research Design and Methodology: Using a qualitative approach, this study employs a Systematic Literature Review (SLR) methodology to synthesize and critically analyze existing research on SME tax policy. Agency theory is the lens through which to explore the alignment between tax policy design and SME compliance and growth dynamics.</p> <p>Findings and Discussion: The findings reveal that well-designed tax policies significantly contribute to SME growth by fostering investment capacity, promoting innovation, and reducing administrative burdens. Simplified tax systems and digital tax platforms enhance operational efficiency and competitiveness, enabling SMEs to navigate domestic and international markets more effectively. However, challenges such as information asymmetry, limited resource access, and bureaucratic inefficiencies remain significant barriers. The study highlights the need for adaptive and inclusive tax policies that align with SMEs' unique operational realities, emphasizing the dual role of tax systems as enablers of growth and compliance mechanisms.</p> <p>Implications: This research provides actionable insights for policymakers to design effective tax frameworks that support SME growth while fostering compliance. It offers practitioners managerial guidance on leveraging tax incentives and navigating regulatory systems. By addressing the challenges identified, this study contributes to sustainable economic development by empowering SMEs to thrive in competitive markets.</p>

Introduction

Small and Medium Enterprises (SMEs) are foundational components of economic systems worldwide, including in Indonesia, where they play a vital role in driving economic growth, generating employment, and reducing poverty. SMEs contribute significantly to Indonesia's Gross Domestic Product (GDP), accounting for over 60% of national output and providing nearly 97% of all employment opportunities (Zulvikri, 2024). This prominence underscores their critical role in promoting economic inclusivity, particularly in underdeveloped regions where large-scale industries are less prevalent. Beyond their economic contributions, SMEs catalyze community empowerment, fostering innovation

and local economic resilience. Despite these strengths, SMEs face persistent challenges that hinder their development, particularly in adapting to fiscal policies and navigating complex tax regulations. Tax policy, as a central tool of economic management, directly influences resource allocation, business investment, and market stability (Chugunov & Pasichnyi, 2018). For SMEs, well-structured tax frameworks have the potential to drive innovation, support market expansion, and enhance operational efficiency (Matikonis & Gobey, 2024). However, poorly designed policies often impose significant administrative burdens, creating barriers to compliance and diverting resources away from productive activities. Such challenges are particularly acute for SMEs that lack access to expertise and resources, further compounding their struggles with tax compliance. These structural barriers impede SMEs' capacity to compete effectively, diminishing their overall economic impact and raising concerns about their long-term sustainability in an increasingly competitive global economy (Gamage et al., 2020).

Amid these challenges, the evolution of the digital economy has further highlighted the limitations of traditional tax frameworks in accommodating the unique needs of SMEs. As SMEs increasingly transition into online markets, they encounter tax policies and regulatory systems predominantly designed for conventional business models (Rizos et al., 2016). This misalignment between the tax framework and the digital realities of SMEs exacerbates their struggles with compliance, creating additional hurdles in their efforts to benefit from available tax incentives or achieve operational efficiency (Muslim, 2024). The inadequacy of adaptive tax policies stifles the potential of SMEs to innovate, expand, and thrive in the competitive landscape (Jannah et al., 2024). The phenomenon underlying this study is the evident gap between the specific needs of SMEs in a rapidly digitalizing economy and the support provided by existing tax systems. This mismatch constrains SME growth and undermines their ability to compete effectively within the broader national economic framework. To address this pressing issue, a deeper exploration of the interplay between tax policies and SME competitiveness is essential, particularly in identifying mechanisms to align fiscal frameworks with the dynamic realities of SMEs in the digital era. This focus is vital for creating a more supportive environment that fully allows SMEs to realize their potential and contribute to sustainable economic growth.

Recent studies have emphasized the substantial impact of tax policy on SMEs and their contributions to economic growth. Tax incentives for SMEs in special economic zones have positively affected growth, access to capital, and market expansion (Kaharuddin et al., 2024). Additionally, the competitiveness of SMEs, driven by innovation and product differentiation, significantly contributes to job creation and economic development (Inegbedion et al., 2024). Government support, both financial and non-financial, plays a crucial role in directly influencing SME performance and indirectly enhancing entrepreneurial orientation (Prasannath et al., 2024). As SMEs increasingly embrace digitalization, ensuring tax compliance becomes critical. Introducing user-friendly digital tax systems, clear guidelines, and targeted reforms has been identified as a practical approach to simplifying compliance for digital SMEs (Sibarani et al., 2024). However, persistent challenges, such as understanding tax policies and administrative procedures, remain significant barriers (Kaharuddin et al., 2024). These findings underscore the importance of tailored tax policies and supportive mechanisms to foster SME growth and competitiveness in the national economy. Studies have also highlighted the complex relationship between tax policies and SME performance. For instance, tax compliance poses challenges for SMEs due to limited resources (Thaha & Antoro, 2023). Research across EU countries reveals that tax policies are often perceived as obstacles to SME performance (Roman et al., 2023). Tax environments characterized by high bureaucracy and unprofessional administration can hinder SME development and inadvertently promote informal economic activities (Adžić et al., 2023). Moreover, while increasing SME turnover and employment, simplified tax systems may have mixed effects on overall tax revenue (Çela et al., 2022).

Despite the extensive research on the relationship between tax policies and SMEs, significant gaps remain in understanding the nuanced effects of these policies on SME growth and competitiveness in evolving economic contexts. Existing studies have primarily focused on the benefits of tax incentives or the administrative challenges SMEs face in complying with tax regulations. For example, Kaharuddin et al. (2024) and Inegbedion et al. (2024) highlight the positive impact of tax incentives and SME

competitiveness on economic growth. The studies do not fully address how these benefits translate into sustainable long-term outcomes for SMEs. Similarly, while Prasannath et al. (2024) explore the role of government support in enhancing entrepreneurial orientation, their findings largely overlook the interplay between digitalization and tax compliance in shaping SME performance. Research by Sibarani et al. (2024) and Thaha et al. (2023) emphasizes the importance of simplified digital tax systems and the resource constraints SMEs face in achieving tax compliance. However, these studies offer limited insights into the systemic barriers within traditional tax frameworks that inhibit the adaptation of SMEs to a digitalized economy. Moreover, studies by Roman et al. (2023) and Adžić et al. (2022) reveal the negative perceptions of tax policies and bureaucratic inefficiencies but do not explore the potential synergies between policy reforms and SME innovation. This research aims to address these gaps by examining the comprehensive impact of tax policy on SME competitiveness within the dynamic and increasingly digitalized national economy, contributing empirically and theoretically to the field.

This study seeks to address critical gaps in the current understanding of how tax policy influences the growth and competitiveness of SMEs in the national economy, particularly in the context of an increasingly digitalized and globalized business environment. While prior research has provided valuable insights into the challenges and opportunities of tax policies, it has often lacked a comprehensive approach that integrates theoretical frameworks with empirical observations, especially concerning SMEs' adaptation to modern economic realities. The novelty of this research lies in its focus on exploring the dynamic interplay between tax policies and SME performance, emphasizing how tailored tax frameworks can simultaneously foster innovation, improve compliance, and enhance competitive resilience. Unlike previous studies, this research delves into the implications of transitioning tax systems to align with digital transformations, addressing a pressing need for adaptive fiscal policies. To achieve this, the study employs a Systematic Literature Review (SLR) methodology to critically analyze existing research and synthesize findings within a structured framework. The central research question driving this inquiry is: How do tax policies impact the growth and competitiveness of SMEs within the national economy? By addressing this question, the study aims to provide actionable recommendations for policymakers, emphasizing the design of inclusive and adaptive tax systems that address administrative burdens and create a supportive environment for SME growth. Ultimately, this research aspires to contribute to the discourse on sustainable economic development by aligning fiscal policies with the evolving needs of SMEs in the national economy.

Literature Review

Agency Theory and SME Tax Policy Compliance

Agency theory provides a theoretical framework to analyze the relationship between principals (Jensen & Meckling, 1979), such as governments, and agents, like Small and Medium Enterprises (SMEs), particularly in tax compliance. The theory underscores the inherent differences in objectives, with principals aiming to optimize tax revenues to support national development while agents prioritize operational efficiency to ensure business sustainability (Zarghami, 2025). This divergence often results in conflicts and inefficiencies exacerbated by asymmetrical information. For instance, SMEs frequently lack adequate access to comprehensive tax guidelines or fail to understand tax incentives' benefits, leading to non-compliance and operational challenges (Valerian, 2023). The complexity of tax regulations compounds this asymmetry, creating administrative burdens that disproportionately affect resource-constrained SMEs (Saad, 2014). These constraints reduce compliance rates and erode trust between governments and businesses, as highlighted by Onu & Oats (2015), who emphasize the role of transparent communication in mitigating these challenges. In many cases, SMEs may allocate their limited resources to short-term operational goals rather than navigating complex tax systems, further aggravating compliance issues (Maina, 2024). Daly (2023) argues that multiple taxation systems exacerbate these challenges, making tax compliance particularly onerous for SMEs operating in dynamic environments. This misalignment of incentives and lack of streamlined tax policies highlights the need for governments to design more straightforward, accessible frameworks that align with SMEs' operational realities, fostering collaboration and enhancing

compliance. Such measures could strengthen the principal-agent relationship, ultimately benefiting national economic growth.

The conflict of interest between principals, such as governments, and agents, like SMEs, arises when the latter prioritize short-term operational goals, such as cost efficiency, over compliance with tax policies. Limited financial resources, inadequate expertise, and unclear tax incentives exacerbate this misalignment. Smulders (2006) emphasizes that resource constraints significantly hinder tax compliance among SMEs, particularly in service sectors where administrative burdens are more pronounced. Such limitations compel SMEs to allocate resources to immediate business needs, often at the expense of fulfilling tax obligations (Abdulhamid, 2023). Agency theory provides a framework to understand these dynamics, particularly how misaligned goals and information asymmetry contribute to inefficiencies. Prichard et al. (2019) discuss how the complexity of tax regulations further widens this gap, creating barriers that undermine compliance efforts. Simplified and transparent tax systems, supported by digital tools, have been identified as solutions to reduce administrative burdens and bridge this asymmetry. Delbufalo & Bastl (2018) highlight the importance of social norms and trust in encouraging compliance, suggesting that collaboration between governments and SMEs can mitigate the principal-agent conflict. Moreover, Bui et al. (2021) argue that multiple taxation exacerbates this conflict as SMEs face increased financial and operational pressure. Addressing these challenges requires tax policies focusing on enforcement and empowering SMEs through clear guidelines, incentives, and capacity-building measures. Such initiatives can strengthen the principal-agent relationship, enabling SMEs to contribute more effectively to economic development while maintaining compliance.

Tax Policy

Tax policy is a critical economic tool governments use to allocate resources, foster economic growth, and stabilize markets (Lannai et al., 2023). Tax policy is pivotal for SMEs in determining their capacity to sustain operations and expand their businesses. Well-structured tax incentives, such as reduced rates or exemptions, can significantly boost SME productivity and innovation. Zwick & Mahon (2017) argue that targeted tax policies influence investment behavior, particularly among resource-constrained enterprises. Similarly, de Mooij & Liu (2020) highlight how simplified tax systems encourage efficient capital allocation, which is crucial for SMEs aiming to compete in dynamic markets. Despite these benefits, tax policy often imposes unintended burdens on SMEs due to its complexity. The administrative and financial costs associated with compliance can disproportionately impact smaller businesses. Garcia-Garcia-Bernardo & Janský (2024) emphasize that while multinational corporations have the resources to navigate complex tax environments, SMEs often struggle, leading to unequal competitive landscapes. Moreover, Beer et al. (2020) shed light on how global tax practices, such as profit shifting, create challenges for local SMEs by reducing the tax base available for supportive public policies. To address these disparities, policymakers must design tax frameworks that balance simplicity with equity. For example, Hebous & Ruf (2017) suggest incorporating systems like Allowance for Corporate Equity (ACE) to reduce the reliance on debt financing, which often burdens SMEs. Governments can foster a more inclusive and competitive economic environment by aligning tax policies with SME-specific needs.

Tax policy plays a pivotal role in shaping the growth trajectory of SMEs, serving as both an enabler and a potential barrier. Aliano et al. (2024) highlight that well-designed tax incentives, such as reduced rates and deferred payments, can significantly enhance SMEs' growth by improving their access to capital and fostering innovation. Such incentives have demonstrated tangible benefits in emerging economies, including higher investment rates and job creation. However, the complexity of tax systems often imposes significant compliance challenges for SMEs. Valerian (2023) argues that smaller enterprises face disproportionate administrative burdens due to limited financial and human resources, which hinders their ability to comply effectively with tax regulations. Digital tax systems have been proposed as a solution to these challenges. Hesami et al. (2023) emphasize that integrating technology into tax administration reduces the time and effort required for compliance, making it more accessible for SMEs. However, adoption remains uneven, particularly in regions with limited digital infrastructure. Antoniuk et al. (2017) underscore the importance of tax incentives tailored to

encourage innovation among SMEs, which often struggle to allocate resources toward research and development. Despite these advancements, challenges persist in aligning tax policies with the specific needs of SMEs. Andrews (2013) argues that reforms must address systemic issues, such as excessive bureaucracy and information gaps, to improve policy efficacy. A comprehensive approach, combining simplification, technology, and targeted incentives, can enhance compliance and bolster SMEs' contributions to economic development.

Growth and Competitiveness of SMEs

The growth and competitiveness of SMEs are essential to fostering sustainable economic development at both national and local levels. Growth is often reflected in increased revenue, expanded market share, and job creation. Fikri et al. (2022) emphasize that innovation is a critical driver of SME growth, enabling businesses to create products and services that cater to evolving market needs. This aligns with Beck & Cull (2014) findings that access to finance significantly influences SMEs' capacity to scale operations and penetrate new markets, particularly in regions with limited financial infrastructure. Market opportunities also play a pivotal role in SME development. Nguyen (2020) highlights how access to local and international markets can amplify SMEs' ability to achieve economies of scale and generate added value. However, without supportive regulatory frameworks, SMEs often struggle to realize their full potential. (Sitharam & Hoque, 2016) note that conducive policies, such as tax incentives and simplified regulations, are crucial for creating an environment where SMEs can thrive. Yoshino & Taghizadeh-Hesary (2018) underline the challenges SMEs face in accessing affordable financing, which hampers their ability to invest in innovation and growth initiatives. This financial constraint is often compounded by complex regulatory systems that deter efficiency and hinder competitiveness. Addressing these challenges through targeted interventions, such as improving market access and regulatory support, can significantly enhance the growth and competitiveness of SMEs, ensuring their pivotal role in economic advancement.

The competitiveness of SMEs is deeply tied to their ability to innovate, allocate resources efficiently, and adapt to changing market environments. Lukovszki et al. (2021) argue that innovation is a cornerstone of SME competitiveness, enabling businesses to develop products and services that deliver value in increasingly competitive markets. However, fostering innovation requires access to supportive financing mechanisms and policy frameworks that encourage technological advancement. Kraus et al. (2018) highlight the importance of strategic sophistication in leveraging innovation for sustained competitiveness, particularly in dynamic and uncertain markets. Operational efficiency also plays a critical role. Mazzarol & Reboud (2017) emphasize that efficient resource allocation directly impacts productivity and cost management, essential for SMEs striving to maintain their competitive edge. Beyond efficiency, adaptability to evolving market and technological landscapes is vital. Zahoor & Lew (2023) demonstrate how SMEs adopting strategic approaches to exporting can better navigate international market complexities and enhance their performance. Tax policy significantly influences these factors. Bergner et al. (2017) noted that simplified tax systems and incentives can reduce administrative burdens and free resources for innovation and market expansion. Conversely, tax policies that fail to align with SMEs' needs—such as overly bureaucratic processes—may hinder competitiveness. Thus, comprehensive tax reforms prioritizing inclusivity and adaptability are essential to fostering a supportive ecosystem for SMEs to thrive in a global economy.

Research Design and Methodology

Study Design

This research adopts a qualitative approach, utilizing the Systematic Literature Review (SLR) method to comprehensively analyze existing studies related to the growth and competitiveness of SMEs. The SLR method is chosen for its ability to provide a structured synthesis of academic literature, enabling the identification of patterns, gaps, and emerging themes across a wide range of sources. This approach follows a predefined protocol to ensure transparency, rigor, and replicability in the research process.

Sample Population or Subject of Research

This research comprises peer-reviewed journal articles, conference papers, and academic books published after 2018, focusing on topics such as tax policy, SME innovation, operational efficiency, and competitiveness. The inclusion criteria emphasize sources from reputable publishers, including Elsevier, Emerald, Wiley, and Springer, ensuring high-quality and credible data. Articles must discuss relevant themes, including policy impacts, innovation drivers, and resource allocation in SMEs, with no restrictions on geographic focus.

Data Collection Techniques and Instrument Development

Data collection involves a systematic search of academic databases using predefined keywords, such as "SME growth," "competitiveness," "tax policy," and "innovation." Boolean operators and filters are employed to refine the search results, ensuring the inclusion of only relevant studies. A checklist is developed to assess the quality and relevance of each study, incorporating criteria such as publication year, journal ranking, and thematic alignment. Duplicate articles and those failing to meet the criteria are excluded from review.

Data Analysis Techniques

Thematic analysis is employed to extract and synthesize insights from the collected literature. This involves coding and categorizing key themes related to SME growth and competitiveness. Patterns, trends, and research gaps are identified, providing a comprehensive understanding of the subject. The findings are critically evaluated for actionable insights and recommendations for policymakers and practitioners. This rigorous analysis ensures that the research contributes meaningfully to the existing body of knowledge.

Findings and Discussion

Findings

Tax policy significantly influences the growth trajectory of SMEs by providing a conducive environment for investment and operational expansion. Tax incentives, such as reduced tax rates, deferred payments, and exemptions, enhance SMEs' financial capacity to invest in new ventures. Abdulhamid (2023) highlights that well-structured income tax policies have enabled small businesses to allocate more resources toward scaling their operations, thereby improving productivity. Similarly, Adžić et al. (2023) emphasize that streamlined tax systems reduce financial burdens on SMEs, fostering a more growth-oriented business climate. The ability to reinvest tax savings into market expansion and technological upgrades underpins much of the sector's success. Research by Čela et al. (2022) further demonstrates that simplified profit tax systems in Albania directly correlate with higher revenue growth and improved competitiveness among SMEs. However, challenges persist in ensuring these policies are equitably applied, particularly in developing economies. Kaharuddin et al. (2024) underscore that targeted tax incentives in special economic zones have been instrumental in spurring growth, especially in sectors with high innovation potential. While such policies have succeeded, their effectiveness depends heavily on implementation quality and alignment with SMEs' operational realities. The findings suggest that a comprehensive tax framework tailored to SMEs' needs can catalyze growth, creating job and market expansion opportunities.

Innovation is a cornerstone of SME competitiveness, and tax policy is pivotal in enabling businesses to innovate effectively. Tax incentives for research and development (R&D) are particularly impactful, as they provide financial relief that encourages technological advancement. According to Aliano et al. (2024), sustainable tax frameworks that prioritize R&D investments have been shown to increase SMEs' capacity to innovate, especially in environmentally friendly technologies. However, challenges such as limited awareness and accessibility often hinder the full utilization of these incentives. Andrews (2013) argues that institutional reforms in tax administration are necessary to ensure that SMEs can benefit from innovation-focused policies. Moreover, Antoniuk et al. (2017) identify barriers to technological adoption in SMEs, noting that innovation often requires robust financial and regulatory support. Hesami et al. (2023) demonstrate that emerging digital tax technologies can streamline compliance, freeing up resources for innovation. This alignment between fiscal policy and innovation

objectives is critical in ensuring SMEs remain competitive in the digital age. Nevertheless, implementing such policies must address systemic inefficiencies, as highlighted by Prasanna et al. (2024), who found that government support directly influences SMEs' entrepreneurial orientation. The findings suggest that innovation-driven tax policies should be complemented by capacity-building initiatives to maximize their impact.

Competitiveness in SMEs is intricately linked to the simplicity and inclusiveness of tax policies. Simplified tax systems reduce the administrative burdens on SMEs, allowing these businesses to allocate their limited resources more efficiently toward strategic goals such as innovation, market expansion, and capacity building. Adžić et al. (2023) emphasize that bureaucratic inefficiencies within tax administration can erode SMEs' competitive advantages, as these inefficiencies force businesses to divert valuable resources toward meeting compliance requirements instead of pursuing growth-oriented initiatives. In contrast, systems that minimize compliance costs significantly enhance productivity and strengthen the market positioning of SMEs, particularly in sectors where competition is intense. Daly (2023) highlights that during crises, adaptable and inclusive tax frameworks play a crucial role in maintaining operational efficiency for SMEs, ensuring their resilience in adverse conditions. Gamage et al. (2020) underscore the importance of accessible tax regimes in fostering fair competition, enabling SMEs to compete effectively with larger firms in domestic and international markets. However, complexities in tax policies can create barriers that hinder SMEs from fully realizing their growth potential. Beer et al. (2020) found that uncoordinated and poorly designed tax measures often lead to operational inefficiencies that disproportionately impact smaller businesses. To mitigate these issues, Sibarani et al. (2024) advocate for integrating digital solutions into tax administration processes to reduce compliance challenges and enhance efficiency. Ultimately, achieving SME competitiveness requires a balanced approach that combines simplified tax frameworks with targeted policy support measures to help SMEs thrive in an increasingly dynamic economic landscape.

As SMEs increasingly adapt to the digital economy, implementing digital tax systems has become an essential policy intervention. Digital platforms simplify tax compliance processes by automating critical activities such as filing returns, calculating liabilities, and facilitating payments, thereby significantly reducing the administrative burden on SMEs. Hesami et al. (2023) highlight the remarkable efficiency gains achieved through adopting digital tax technologies, which not only streamline compliance processes but also foster greater transparency and accountability. During global disruptions like the COVID-19 pandemic, Daly (2023) found that resilient digital tax systems played a critical role in ensuring continuity for SMEs, enabling them to navigate unprecedented challenges while maintaining compliance. Sibarani et al. (2024) emphasize that Indonesian SMEs utilizing digital tax platforms reported improved compliance rates and reduced operational costs, allowing them to focus resources on core business activities such as innovation and market expansion. However, the inclusivity of digital tax systems remains a pressing concern. Many SMEs, particularly those in rural or underserved regions, lack the necessary digital infrastructure or technical expertise to adopt these systems effectively. Bui et al. (2021) argue that equitable access to digital tax tools is vital for ensuring that all SMEs, regardless of geographic or economic limitations, can benefit from these advancements. Policymakers must prioritize investments in digital infrastructure, provide training programs to enhance SME capabilities, and design user-friendly platforms to maximize the benefits of digital tax systems. This comprehensive approach will support the seamless transition of SMEs into the digital economy, fostering long-term growth and competitiveness.

Despite the potential benefits of well-designed tax policies, SMEs face numerous challenges in compliance and utilization. High administrative costs, compounded by a lack of clear guidelines, often deter SMEs from fully engaging with tax systems, leaving them unable to leverage available incentives effectively. Adžić et al. (2023) identify information asymmetry as a significant barrier, as many SMEs lack access to the resources and expertise needed to navigate complex tax regulations. This knowledge gap often results in inefficiencies, further exacerbating SMEs' operational challenges. Matikonis and Gobey (2024) highlight the uneven application of tax incentives, noting that such incentives frequently favor larger firms, thereby placing SMEs at a competitive disadvantage. Andrews (2013) underscores the need for institutional reforms to address these disparities, emphasizing the importance of transparency, predictability, and fairness in tax policies. Gamage et al. (2020) stress that bureaucratic

inefficiencies in tax administration disproportionately burden SMEs, diverting their focus from productive activities toward meeting compliance requirements. These findings highlight the importance of adopting a holistic approach to addressing these gaps, which includes simplifying tax policies, enhancing accessibility, and implementing capacity-building initiatives to ensure SMEs can fully benefit from available tax frameworks. Bridging these gaps will enable SMEs to unlock their potential and contribute more effectively to economic growth and job creation.

To support the growth and competitiveness of SMEs, tax policies must be adaptive, inclusive, and aligned with the operational realities of small businesses. Simplifying administrative procedures is a crucial first step, as complex systems often deter SMEs from engaging fully with tax frameworks. Adžić et al. (2023) advocate for tax systems that prioritize flexibility and responsiveness to the unique needs of SMEs, ensuring they can efficiently allocate resources toward strategic initiatives such as innovation and market expansion. Aliano et al. (2024) recommend embedding sustainability goals within tax policies to achieve long-term economic and environmental benefits, particularly relevant for SMEs transitioning to green technologies. As highlighted by Sibarani et al. (2024), integrating digital tax platforms offers significant potential for streamlining processes and enhancing accessibility for SMEs. These platforms reduce compliance costs and foster greater transparency, enabling SMEs to operate more effectively in competitive markets. Andrews (2013) emphasizes the importance of collaborative policymaking, suggesting that involving SMEs in designing and implementing tax reforms can ensure policies are tailored to their needs. A multi-faceted approach incorporating digital innovation, capacity-building programs, and targeted incentives can create a supportive ecosystem for SMEs. By aligning fiscal policies with the evolving demands of SMEs, policymakers can foster sustainable growth and resilience in a rapidly changing global economy.

Discussion

The findings of this study underscore the pivotal role of tax policy in driving the growth and competitiveness of SMEs. Well-designed tax policies, including reduced tax rates, tax exemptions, and investment incentives, significantly enhance the capacity of SMEs to allocate resources more efficiently, scale operations, and explore new market opportunities. These incentives act as a catalyst for increased productivity and business expansion. For instance, SMEs benefiting from tax incentives in special economic zones often demonstrate accelerated growth in revenue generation and market reach, reflecting the tangible impact of such policies. Furthermore, tax incentives strengthen SMEs' ability to create new jobs, reinforcing their role as a cornerstone of economic development. This direct link between tax incentives and SME growth aligns with foundational fiscal policy principles, where taxation serves as a tool to stimulate productive economic activities. The capacity of SMEs to leverage these incentives for expansion not only enhances their operational dynamics but also substantially elevates their contribution to the national economy, particularly in terms of Gross Domestic Product (GDP) growth. By enabling SMEs to thrive in a competitive environment, these policies validate the strategic importance of tailoring tax systems to the needs of smaller enterprises, ultimately fostering sustainable economic progress and resilience.

Beyond fostering growth, tax policy also emerges as a critical driver of innovation in the SME sector. Investment incentives for research and development (R&D) empower SMEs to create new products and services that align with evolving market demands. In an era of rapid digitalization, tax policies supporting technology investments are essential in helping SMEs adapt to technological transformations. SMEs that utilize tax incentives for technology development often demonstrate enhanced market competitiveness, leveraging innovative solutions to differentiate themselves in crowded markets. However, this potential is not without challenges. The findings reveal that limited awareness of available incentives and restricted access to financial resources are key obstacles that hinder SMEs from fully utilizing tax policies aimed at innovation. To adopt and integrate advanced technologies effectively, SMEs require fiscal support, targeted educational programs, and technical assistance. The study highlights the need for comprehensive reforms that address these barriers, ensuring that tax policies are not only accessible but also actionable for SMEs. Tax systems can empower innovation by bridging the gap between policy design and implementation, fostering long-term growth and resilience in a competitive global economy.

In the context of competitiveness, the study identifies the significant positive impact of simplified and inclusive tax policies on the operational efficiency of SMEs. Simplified tax systems reduce administrative burdens, allowing SMEs to focus their resources on core activities such as product development, marketing, and market expansion. This efficiency is further amplified when tax policies are designed to support export activities. For instance, incentives such as reduced export tariffs and investment subsidies enable SMEs to position themselves more effectively in international markets, enhancing their global competitiveness. However, the research also highlights persistent challenges, particularly the complexities of bureaucratic tax systems and the lack of adaptability within existing frameworks. These inefficiencies constrain SMEs' international competitiveness and hinder their operational efficacy in domestic markets. Addressing these challenges requires a dual approach: streamlining tax administration processes to reduce compliance costs and adopting more adaptive policies that reflect the unique needs of SMEs. By eliminating unnecessary bureaucratic hurdles and creating a supportive tax environment, policymakers can enable SMEs to unlock their full potential, contributing to their growth and broader economic stability and development.

In the context of theory, this study aligns with the foundational principles of agency theory, as introduced by Jensen and Meckling (1976). Agency theory examines the dynamics between principals, such as governments, and agents, such as SMEs, highlighting challenges arising from divergent goals and information asymmetry. The findings emphasize how well-structured tax policies can mitigate these challenges by aligning the interests of both parties. For example, incentives like reduced tax rates and simplified compliance processes alleviate administrative burdens on SMEs, enabling them to focus resources on growth and innovation. This directly addresses the agency problem by reducing inefficiencies caused by misaligned priorities. The study also underscores the importance of transparency and trust in fostering tax compliance. Simplified tax systems and the integration of digital platforms reduce information asymmetry, which is often a significant barrier for SMEs in navigating complex regulations. By enhancing accessibility and understanding, such policies foster a collaborative relationship between governments and SMEs, promoting compliance while encouraging sustainable growth. These measures illustrate how tax policies can serve as tools for aligning the objectives of both parties and minimizing agency conflicts. Ultimately, by applying the principles of agency theory, governments can create tax frameworks that empower SMEs while supporting broader economic development, bridging the gap between regulatory requirements and the operational realities of SMEs.

The findings of this study aligned with previous research, underscoring the critical role of well-designed tax policies in enhancing SME performance. For instance, Adžić et al. (2023) highlighted that simplified and transparent tax policies significantly improve SMEs' operational efficiency by reducing administrative burdens and fostering competitiveness. This supports the argument that clear and straightforward tax systems allow SMEs to allocate resources more effectively, ultimately strengthening their market position. Similarly, Kaharuddin et al. (2024) found that tax incentives in special economic zones substantially impact SME growth by facilitating investment and market expansion. These findings underscore the importance of targeted fiscal measures in creating an enabling environment for SMEs to thrive. However, discrepancies with prior research also emerged. For example, Beer et al. (2020) emphasized that uncoordinated tax policies often generate uncertainty, hindering SME growth and development. This contrasts with the current findings, which suggest that adaptive and needs-based tax policies are instrumental in mitigating such challenges. By addressing systemic inefficiencies and aligning tax measures with the specific needs of SMEs, governments can foster a more predictable and supportive fiscal environment. This study thus extends the existing literature by offering a broader perspective on how adaptive tax policies can bridge gaps in previous research, providing actionable insights for policymakers aiming to support SME growth and competitiveness effectively.

The practical implications of this research are highly relevant for policymakers and SME stakeholders. The findings underscore the importance of simplifying tax administration as a useful initial step to support SME growth. By reducing bureaucratic complexities, SMEs can reallocate resources and focus on core business activities such as innovation, market expansion, and operational improvement. Simplified processes enhance efficiency and promote higher compliance rates, fostering

a healthier fiscal relationship between SMEs and government authorities. The study highlights the necessity for governments to develop inclusive and adaptive tax policies tailored to the specific needs of SMEs across various sectors. A one-size-fits-all approach often overlooks SMEs' unique challenges, such as limited financial resources and capacity constraints. Adaptive policies addressing these needs can better support SMEs in navigating fiscal requirements while promoting long-term sustainability. Integrating digital technology into tax systems is a top priority, offering significant potential to streamline compliance processes and reduce administrative burdens. Digital platforms facilitating tax filing and payment processes make compliance more accessible and less time-consuming, particularly for resource-constrained SMEs. Furthermore, training and education programs on tax policies are essential to ensuring that SMEs fully understand and leverage available incentives. Expanding awareness and capacity-building initiatives can empower SMEs to utilize these incentives effectively, driving growth and competitiveness.

Conclusion

This study explored the effect of tax policy on the growth and competitiveness of SMEs within the national economy, addressing a critical research question: How do tax policies influence SME performance in an increasingly digitalized and globalized environment? The findings demonstrate the significant role of well-designed tax policies, including incentives, simplified systems, and technology-driven frameworks, in fostering SME growth, innovation, and operational efficiency. These policies enable SMEs to overcome administrative challenges and enhance their capacity to adapt to market dynamics and technological advancements. This research provides a comprehensive understanding of the interplay between tax policies and SME performance by critically analyzing existing literature and synthesizing empirical evidence.

The originality of this study lies in its holistic approach, which integrates theoretical perspectives with practical implications for policy and management. It contributes to scientific knowledge by extending the application of agency theory in the context of SME tax compliance and innovation. Practically, the study underscores the need for simplified tax systems, inclusive policies, and digital transformation in tax administration. It offers actionable recommendations for policymakers to design adaptive tax frameworks that align with SMEs' unique needs, fostering their growth and competitiveness. Managerially, the findings guide SME leaders in navigating tax systems and leveraging incentives to optimize resources and drive innovation. The study emphasizes the dual role of tax policies as both enablers of growth and mechanisms for fostering compliance, reinforcing their pivotal role in sustainable economic development.

Despite its contributions, this study has limitations that warrant further investigation. First, the focus on secondary data through a systematic literature review may limit the generalizability of the findings. Future research could employ empirical methodologies, such as surveys or case studies, to validate and expand upon the insights presented. Additionally, the study primarily examines SMEs within a general context; future research could explore industry-specific implications of tax policies to provide tailored recommendations. Researchers might also investigate the long-term impact of digital tax systems on SMEs, particularly in emerging economies where technological adoption remains uneven. These directions provide valuable opportunities for advancing theoretical and practical understanding of SME tax policy dynamics.

References

- Abdulhamid, H. (2023). The Effect Of Income Tax On Small Businesses: The Case Of Addis Ketema. <http://hdl.handle.net/123456789/7765>
- Adžić, S., Nestorović, O., Zakić, N., Aničić, D., & Penjišević, A. (2023). The Impact of Tax Policy, System, and Administration on Small and Medium-Sized Enterprises in the Republic of Serbia: A Statistical Analysis of the Situation. *Eastern European Economics*, 61(1), 86-109. <https://doi.org/10.1080/00128775.2022.2117196>
- Aliano, M., Cestari, G., & Madonna, S. (2024). *Sustainable Finance for SMEs: The Role of Capital for Sustainable and Inclusive Growth*. Springer Nature.

- Andrews, M. (2013). *The limits of institutional reform in development: Changing rules for realistic solutions*. Cambridge University Press.
- Antoniuk, L., Gernego, I., Dyba, V., Polishchuk, Y., & Sybirianska, Y. (2017). Barriers and opportunities for hi-tech innovative small and medium enterprises development in the 4th industrial revolution era. *Problems and Perspectives in Management*, 15(4), 100-113. [https://doi.org/10.21511/ppm.15\(4\).2017.09](https://doi.org/10.21511/ppm.15(4).2017.09)
- Beck, T., & Cull, R. (2014). Small-and medium-sized enterprise finance in Africa. *Global Economy and Development Program*, 16, 1-28.
- Beer, S., De Mooij, R., & Liu, L. (2020). International corporate tax avoidance: A review of the channels, magnitudes, and blind spots. *Journal of Economic Surveys*, 34(3), 660-688. <https://doi.org/10.1111/joes.12305>
- Bergner, S., Bräutigam, R., Evers, M., & Spengel, C. (2017). The use of SME tax incentives in the European Union. *ZEW-Centre for European Economic Research Discussion Paper*, 17-006. <https://doi.org/10.2139/ssrn.2910339>
- Bui, A. T., Pham, T. P., Pham, L. C., & Ta, T. K. Van. (2021). Legal and financial constraints and firm growth: small and medium enterprises (SMEs) versus large enterprises. *Heliyon*, 7, e08576. <https://doi.org/10.1016/j.heliyon.2021.e08576>
- Çela, S., Gjoni, A., Shehi, F., & Duli, B. (2022). Analysis of the Effect of Simplified Profit Tax on SMEs at the Level of Factual Budgeted Revenues in Albania. *Wseas Transactions on Business and Economics*, 19, 1507-1516. <https://doi.org/10.37394/23207.2022.19.135>
- Chugunov, I. Y., & Pasichnyi, M. D. (2018). Fiscal Policy For Economic Development. *Scientific Bulletin of Polissia*, 13. [https://doi.org/10.25140/2410-9576-2018-1-1\(13\)-54-61](https://doi.org/10.25140/2410-9576-2018-1-1(13)-54-61)
- Daly, S. (2023). Tax systems: adaptability and resilience during a global pandemic. *Accounting and Business Research*, 53(5), 541-560. <https://doi.org/10.1080/00014788.2023.2219151>
- de Mooij, R., & Liu, L. (2020). At a Cost: The Real Effects of Transfer Pricing Regulations. *IMF Economic Review*, 68(1), 268-306. <https://doi.org/10.1057/s41308-019-00105-0>
- Delbufalo, E., & Bastl, M. (2018). Multi-principal collaboration and supplier's compliance with codes-of-conduct. *The International Journal of Logistics Management*, 29(4), 1237-1254. <https://doi.org/10.1108/IJLM-09-2017-0222>
- Fikri, A. R., Ratnasari, R. T., Ahmi, A., & Kirana, K. C. (2022). Market orientation and business performance: the mediating role of total quality management and service innovation among Moslem fashion macro, small and medium enterprises in Indonesia. *Journal of Islamic Accounting and Business Research*, 13(8), 1234-1252. <https://doi.org/10.1108/JIABR-12-2021-0321>
- Gamage, S. K. N., Ekanayake, E. M. S., Abeyrathne, G., Prasanna, R., Jayasundara, J., & Rajapakshe, P. S. K. (2020). A review of global challenges and survival strategies of small and medium enterprises (SMEs). *Economies*, 8(4), 79. <https://d1wqtxts1xzle7.cloudfront.net/105302076/pdf-libre.pdf?1693101491=&response-content->
- Garcia-Bernardo, J., & Janský, P. (2024). Profit shifting of multinational corporations worldwide. *World Development*, 177, 106527. <https://doi.org/https://doi.org/10.1016/j.worlddev.2023.106527>
- Hebous, S., & Ruf, M. (2017). Evaluating the effects of ACE systems on multinational debt financing and investment. *Journal of Public Economics*, 156, 131-149. <https://doi.org/https://doi.org/10.1016/j.jpubeco.2017.02.011>
- Hesami, S., Jenkins, H. P., & Jenkins, G. P. (2023). Emerging Digital Technologies to Improve Tax

Compliance and Administration Efficiency: A Systematic Literature Review. Available at SSRN 4580004. <https://doi.org/10.2139/ssrn.4580004>

- Inegbedion, H. E., Thikan, P. R., David, J. O., Ajani, J. O., & Peter, F. O. (2024). Small and medium enterprise (SME) competitiveness and employment creation: the mediating role of SME growth. *Humanities and Social Sciences Communications*, 11(1), 1-10. <https://doi.org/10.1057/s41599-023-02434-y>
- Jannah, M., Susyanti, J., & Farida, E. (2024). Navigating the Entrepreneurial Landscape: A Qualitative Exploration of SME Success Factors. *Jurnal Manajemen Bisnis*, 11(2 SE-Articles), 746-769. <https://doi.org/10.33096/jmb.v11i2.836>
- Jensen, M. C., & Meckling, W. H. (1979). *Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure* BT - *Economics Social Institutions: Insights from the Conferences on Analysis & Ideology* (K. Brunner (ed.); pp. 163-231). Springer Netherlands. https://doi.org/10.1007/978-94-009-9257-3_8
- Kaharuddin, K., Minollah, M., Cahyowati, R., & Nurbani, E. S. (2024). Implementation of Tax Incentive for Micro, Small, and Medium Enterprises at Special Economic Zone in Indonesia. *Volksggeist: Jurnal Ilmu Hukum Dan Konstitusi*, 263-275. <https://doi.org/10.24090/volksggeist.v7i2.11056>
- Kraus, S., Ribeiro-Soriano, D., & Schüssler, M. (2018). Fuzzy-set qualitative comparative analysis (fsQCA) in entrepreneurship and innovation research - the rise of a method. *International Entrepreneurship and Management Journal*, 14(1), 15-33. <https://doi.org/10.1007/s11365-017-0461-8>
- Lannai, D., Syahban, F. A., Nurfadila, N., Haeruddin, S. H., & Subhan, S. (2023). How Tax Policies and Business Strategies Affect MSME Actors During the Covid-19 Pandemic. *Advances in Taxation Research*, 1(1 SE-Articles), 13-24. <https://doi.org/10.60079/atrr.v1i1.5>
- Lukovszki, L., Rideg, A., & Sipos, N. (2021). Resource-based view of innovation activity in SMEs: an empirical analysis based on the global competitiveness project. *Competitiveness Review: An International Business Journal*, 31(3), 513-541. <https://doi.org/10.1108/CR-01-2020-0018>
- Maina, B. (2024). *Navigating market conditions: Analysing the systemic challenges and efficient solutions for MSMEs financing in emerging economies—A Kenyan perspective*. FH Vorarlberg (Fachhochschule Vorarlberg). <https://doi.org/10.25924/opus-5456>
- Matikonis, K., & Gobey, M. (2024). Small Business Property Tax Reductions and Firm Productivity. *Small Business Economics*, 62(1), 307-324. <https://doi.org/10.1007/s11187-023-00768-0>
- Mazzarol, T., & Reboud, S. (2017). *Small business management*. Springer.
- Muslim, M. (2024). E-commerce Taxation: Challenges and Opportunities. *Advances in Taxation Research*, 2(2 SE-Articles), 78-96. <https://doi.org/10.60079/atrr.v2i2.280>
- Nguyen, T. T. (2020). The Impact of Access to Finance and Environmental Factors on Entrepreneurial Intention: The Mediator Role of Entrepreneurial Behavioural Control. *Entrepreneurial Business & Economics Review*, 8(2). <https://doi.org/10.15678/EBER.2020.080207>
- Onu, D., & Oats, L. (2015). The Role of Social Norms in Tax Compliance: Theoretical Overview and Practical Implications. *Journal of Tax Administration*, 1(1 SE-Reviews), 113-137. <https://journals.docuracy.co.uk/jota/article/view/157>
- Prasannath, V., Adhikari, R. P., Gronum, S., & Miles, M. P. (2024). Impact of government support policies on entrepreneurial orientation and SME performance. *International Entrepreneurship and Management Journal*, 20(3), 1533-1595. <https://doi.org/10.1007/s11365-024-00993-3>
- Prichard, W., Custers, A. L., Dom, R., Davenport, S. R., & Roscitt, M. A. (2019). Innovations in tax compliance: Conceptual framework. *World Bank Policy Research Working Paper*, 9032. <https://ssrn.com/abstract=3485915>

- Rizos, V., Behrens, A., Gaast, W. Van Der, Hofman, E., Ioannou, A., Hirschnitz-garbers, M., & Topi, C. (2016). Implementation of Circular Economy Business Models by Small and Medium-Sized Enterprises (SMEs): Barriers and Enablers. *Sustainability*. <https://doi.org/10.3390/su8111212>
- Roman, T., Marcu, N., Rusu, V. D., Doacă, E. M., & Siriteanu, A. A. (2023). Tax Payment and the Performance of SMEs: A Longitudinal Analysis on EU Countries. *Sustainability*, 15(2), 927. <https://doi.org/10.3390/su15020927>
- Saad, N. (2014). Tax Knowledge, Tax Complexity and Tax Compliance: Taxpayers' View. *Procedia - Social and Behavioral Sciences*, 109, 1069-1075. <https://doi.org/https://doi.org/10.1016/j.sbspro.2013.12.590>
- Sibarani, P., Fadjarenie, A., Widayati, C., & Tarmidi, D. (2024). Digital tax policies and compliance challenges for MSMEs in Indonesia. *Edelweiss Applied Science and Technology*, 8(6), 2817-2835. <https://doi.org/10.55214/25768484.v8i6.2560>
- Sitharam, S., & Hoque, M. (2016). Factors affecting the performance of small and medium enterprises in KwaZulu-Natal, South Africa. *Problems and Perspectives in Management*, 14(2). [https://doi.org/10.21511/ppm.14\(2-2\).2016.03](https://doi.org/10.21511/ppm.14(2-2).2016.03)
- Smulders, S. A. (2006). *Taxation compliance burden for small business in South Africa*. University of Pretoria (South Africa).
- Thaha, A. R., & Antoro, A. F. S. (2023). Analytical Review of Tax Compliance Studies in the SMEs Sector: A Bibliometric Approach. *Journal of Tax Reform*, 9(3), 398-412. <https://doi.org/10.15826/jtr.2023.9.3.149>
- Valerian, K. (2023). *Analysis of Factors Influencing Tax Compliance and Non-Tax Compliance Among Small & Medium Enterprises*. IAA. <http://dspace.iaa.ac.tz:8080/xmlui/handle/123456789/2548>
- Yoshino, N., & Taghizadeh-Hesary, F. (2018). *The role of SMEs in Asia and their difficulties in accessing finance*. ADBI Working Paper Series. <https://hdl.handle.net/10419/222678>
- Zahoor, N., & Lew, Y. K. (2023). Enhancing international marketing capability and export performance of emerging market SMEs in crises: strategic flexibility and digital technologies. *International Marketing Review*, 40(5), 1158-1187. <https://doi.org/10.1108/IMR-12-2021-0350>
- Zarghami, S. A. (2025). The role of economic policies in achieving sustainable development goal 7: Insights from OECD and European countries. *Applied Energy*, 377, 124558. <https://doi.org/https://doi.org/10.1016/j.apenergy.2024.124558>
- Zulvikri, M. (2024). Sinergi UMKM Dan Ekonomi Indonesia: Sebuah Kajian Komprehensif Sebuah Perspektif Dan Implikasi. *Jurnal Manajemen Bisnis Era Digital*, 1(2), 255-265. <https://doi.org/10.61132/jumabedi.v1i2.139>
- Zwick, E., & Mahon, J. (2017). Tax Policy and Heterogeneous Investment Behavior. *American Economic Review*, 107(1), 217-248. <https://doi.org/10.1257/aer.20140855>