

Taxation and SMEs in Emerging Markets: A Case Study Approach to Compliance, Growth, and Sustainable Development

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DOI: <https://doi.org/10.28926/espas.v2i1.1817>

Received: 22 Februari 2025

Accepted: 23 Februari 2025

Published: 28 Februari 2025

Abstract :

Tax compliance remains a critical challenge for SMEs in emerging markets, as complex regulations, high compliance costs, and limited financial resources hinder their ability to meet tax obligations. This study aims to examine the interplay between tax compliance, SME growth, and sustainable development, highlighting key barriers and opportunities. Using a qualitative case study approach, data were collected from SMEs across various sectors in emerging economies, analyzed through thematic analysis. The findings reveal that regulatory complexity and perceived tax fairness significantly impact SME compliance behavior, while sustainability-oriented tax incentives remain underutilized. SMEs that engage in strategic tax planning and sustainability initiatives experience improved financial resilience and long-term competitiveness. These results suggest that simplifying tax policies, enhancing digital tax administration, and promoting sustainability-driven fiscal incentives can foster SME growth and economic resilience. The study contributes to taxation and SME literature by integrating sustainability into compliance frameworks, offering insights for policymakers and business leaders.

Keywords : *taxation, SME growth, emerging economies, sustainable development,*

Abstrak :

Kepatuhan pajak tetap menjadi tantangan utama bagi UKM di pasar negara berkembang, di mana regulasi yang kompleks, tingginya biaya kepatuhan, dan keterbatasan sumber daya keuangan menghambat kemampuan mereka untuk memenuhi kewajiban perpajakan. Studi ini bertujuan untuk menganalisis keterkaitan antara kepatuhan pajak, pertumbuhan UKM, dan pembangunan berkelanjutan, dengan menyoroti hambatan serta peluang yang ada. Menggunakan pendekatan studi kasus kualitatif, data dikumpulkan dari berbagai sektor UKM di negara berkembang dan dianalisis melalui metode analisis tematik. Hasil penelitian menunjukkan bahwa kompleksitas regulasi dan persepsi keadilan pajak berpengaruh signifikan terhadap kepatuhan UKM, sementara insentif pajak berbasis keberlanjutan masih kurang dimanfaatkan. UKM yang menerapkan perencanaan pajak strategis dan inisiatif keberlanjutan menunjukkan ketahanan finansial dan daya saing jangka panjang yang lebih baik. Temuan ini merekomendasikan penyederhanaan kebijakan pajak, digitalisasi administrasi pajak, dan promosi insentif fiskal berbasis keberlanjutan guna mendorong pertumbuhan UKM dan ketahanan ekonomi.

Kata Kunci: *perpajakan, pertumbuhan UMKM, negara berkembang, pembangunan berkelanjutan*

INTRODUCTION

Small and Medium-sized Enterprises (SMEs) are pivotal to the economic vitality of emerging markets, acting as catalysts for employment, innovation, and overall economic growth (Judijanto et al., 2024). Their adaptability and resilience enable them to meet diverse market demands, contributing significantly to the gross domestic product (GDP) of these nations (Sartono et al., 2021). For instance, in many developing economies, SMEs account for a substantial share of employment and national output, underscoring their integral role in economic development.

However, the path to sustainable growth for SMEs is fraught with challenges, particularly concerning taxation (Al Malki, 2023). Tax compliance presents a multifaceted dilemma for these enterprises. The complexity of tax regulations, coupled with limited financial literacy, often leads to increased compliance costs and administrative burdens. In Ghana, for example, SMEs face significant challenges in adhering to tax laws, which adversely affect their growth prospects and competitiveness (Owusu, 2019). These challenges can stifle entrepreneurial spirit and deter the formalization of businesses, thereby limiting their potential contributions to the economy.

The regulatory environment in emerging markets often exacerbates these issues. Frequent policy changes and a lack of clarity in tax legislation create uncertainty, making it difficult for SMEs to plan and allocate resources effectively (Netto & Ferreira, 2024). This unpredictability can lead to inadvertent non-compliance, resulting in penalties that further strain the limited resources of these enterprises. Moreover, the perceived fairness of the tax system plays a crucial role in compliance behavior (Mei Tan & Chin-Fatt, 2000). When SMEs perceive tax policies as equitable and just, they are more likely to comply voluntarily. Conversely, perceptions of unfairness can lead to tax evasion and a decline in the overall tax morale.

The burden of tax compliance is not solely financial but also operational. SMEs often lack dedicated tax departments, and the responsibility of tax matters falls on owners or managers who may not possess adequate expertise (Evans et al., 2005). This situation diverts attention from core business activities, hindering productivity and growth. In Indonesia, for instance, the intricate administrative procedures and high compliance costs have been identified as significant obstacles for SMEs, affecting their competitiveness and sustainability (Eldon & Waskita, 2024).

Furthermore, the interplay between tax compliance and sustainable development is profound. SMEs that effectively manage their tax obligations are better positioned to contribute to the formal economy, leading to improved infrastructure, education, and public services—all essential components of sustainable development (Prichard et al., 2019). However, excessive compliance burdens can push SMEs into the informal sector, reducing the tax base and hindering sustainable economic progress. The United Nations Conference on Trade and Development (UNCTAD) emphasizes that integrating sustainability into business operations is crucial for achieving the 2030 Agenda for Sustainable Development (Waskita, Ashari, Al Haris, et al., 2024). This integration includes addressing the challenges SMEs face in tax compliance and sustainability reporting.

Addressing these challenges requires a multifaceted approach. Simplifying tax regulations and providing clear guidelines can alleviate the compliance burden. Capacity-building initiatives aimed at enhancing financial literacy among SME owners

and managers are essential. For example, a study in Ghana identified that the size and age of a business, along with technological costs, are significant determinants of tax compliance costs, suggesting that tailored support can mitigate these challenges (Koranteng et al., 2017). Additionally, fostering a culture of fairness and transparency within tax authorities can enhance trust and encourage voluntary compliance. Engaging SMEs in the policy-making process ensures that their unique challenges are considered, leading to more effective and equitable tax policies.

In conclusion, while SMEs are indispensable to the economic fabric of emerging markets, they face considerable challenges in navigating tax compliance. These challenges not only impede their growth but also affect their contributions to sustainable development. A concerted effort from policymakers, tax authorities, and the SMEs themselves is imperative to create an enabling environment that supports compliance, fosters growth, and advances sustainable development goals. By addressing the complexities of taxation and enhancing the capabilities of SMEs, emerging markets can unlock the full potential of these enterprises, driving economic prosperity and sustainability.

PROBLEM STATEMENT

Tax compliance remains a critical challenge for Small and Medium-sized Enterprises (SMEs) in emerging markets, where regulatory frameworks are often complex, inconsistent, and burdensome. SMEs, as key drivers of economic growth, innovation, and employment, face significant difficulties in navigating tax systems that are not tailored to their limited financial and administrative capacities (Bird & Zolt, 2008). The high compliance costs, lack of financial literacy, and administrative inefficiencies deter SMEs from fulfilling their tax obligations, often pushing them towards informality or tax evasion (Nurunnabi, 2017). This situation not only weakens the overall tax base but also limits the ability of governments to finance public services and infrastructure, hindering sustainable economic development.

In emerging markets, tax regulations are frequently subject to policy shifts, creating uncertainty for SMEs in long-term planning and investment decisions. The lack of transparency and accessibility in tax administration exacerbates compliance difficulties, leading to unintended non-compliance, legal disputes, and financial penalties (Fjeldstad et al., 2012). Moreover, the disproportionate burden of taxation on SMEs compared to larger corporations highlights structural inequities in the tax system, potentially stifling entrepreneurship and economic inclusivity (Joshi et al., 2013). Studies have shown that SMEs in countries such as Indonesia, Ghana, and Brazil struggle with tax complexity, which impedes their business growth and reduces incentives for formalization (Tingbani et al., 2021).

While existing literature has explored tax compliance in large enterprises, there remains a gap in understanding how taxation affects SMEs in emerging markets, particularly in relation to their growth and contributions to sustainable development. The limited empirical evidence on how tax policies influence SME decision-making, financial sustainability, and overall business performance calls for further investigation. Additionally, the role of digital taxation, simplified tax regimes, and government incentives in facilitating SME compliance remains underexplored (Slemrod, 2024; Utami et al., 2024).

This study seeks to address these gaps by examining the taxation challenges

faced by SMEs in emerging markets, analyzing their impact on business growth, and exploring the broader implications for sustainable development. By adopting a case study approach, this research aims to provide context-specific insights into how taxation policies can be optimized to enhance compliance while fostering economic resilience and sustainability. The findings will contribute to policy recommendations that balance revenue generation with SME growth and development, ensuring a more inclusive and sustainable economic environment.

RESEARCH OBJECTIVES

The taxation of Small and Medium-sized Enterprises (SMEs) in emerging markets presents a complex interplay between regulatory compliance, business growth, and sustainable economic development. Despite their critical role in economic progress, SMEs frequently encounter substantial challenges in meeting tax obligations due to regulatory uncertainty, high compliance costs, and administrative burdens (Prichard et al., 2019). Existing research has largely focused on tax compliance in large corporations or developed economies, leaving significant gaps in understanding the taxation dynamics of SMEs in emerging markets (Bird & Zolt, 2008). To bridge this gap, this study aims to explore the taxation challenges faced by SMEs, analyze their implications on business growth, and evaluate the role of tax policy in fostering sustainable economic development.

This study is guided by the following research objectives:

1. To examine the tax compliance behavior of SMEs in emerging markets – Understanding the factors that influence tax compliance, including financial literacy, administrative burden, and perceptions of fairness, is crucial for designing policies that enhance voluntary compliance (Fjeldstad et al., 2012).
2. To analyze the impact of taxation on SME growth and long-term business sustainability – While taxation is essential for public revenue generation, excessive tax burdens can constrain SME expansion. This research investigates how different tax structures, regulatory frameworks, and administrative processes affect the scalability and sustainability of SMEs (Slemrod, 2024).
3. To explore the role of taxation policies in shaping SMEs' contribution to sustainable development – SMEs play a crucial role in job creation, innovation, and local economic development. This study examines how taxation policies either support or hinder their participation in sustainability initiatives, including environmental responsibility, social welfare, and ethical business practices (Tingbani et al., 2021).
4. To identify best practices and policy recommendations for optimizing SME tax compliance while fostering economic resilience and sustainability – By assessing global best practices and case studies, this study aims to provide evidence-based

policy recommendations that balance tax compliance with economic incentives, ensuring that SMEs contribute effectively to national development goals (Nurunnabi, 2017).

The findings of this research will provide valuable insights for policymakers, tax authorities, and SME stakeholders in emerging markets, offering practical strategies for enhancing tax compliance while promoting sustainable business growth. By addressing the intersection of taxation, SME resilience, and sustainable development, this study contributes to a more equitable and efficient tax policy framework that supports long-term economic prosperity.

GAP ANALYSIS

1. Literature Review: Existing Research on SME Taxation and Compliance

The relationship between taxation and SMEs has been widely studied, particularly in the context of tax compliance behavior, regulatory frameworks, and the economic implications of tax burdens (Bird & Zolt, 2008; Prichard et al., 2019). Prior research has highlighted several determinants of tax compliance among SMEs, including financial literacy, administrative complexity, perceived fairness, and enforcement mechanisms (Fjeldstad et al., 2012). Additionally, studies have examined the impact of tax incentives, digital taxation, and simplified tax regimes on improving SME compliance and formalization (Tingbani et al., 2021; Slemrod, 2024).

From an economic development perspective, research has focused on how tax structures influence firm performance, innovation, and access to credit for SMEs (Algan, 2019). However, much of this work has been centered on developed economies, with limited empirical insights from emerging markets, where tax enforcement is often inconsistent, and informal business practices are widespread (Nurunnabi, 2017). Furthermore, the role of taxation in supporting or hindering sustainable development remains underexplored, with existing studies largely focusing on large multinational enterprises rather than SMEs (Waskita, 2025).

2. Identifying Gaps in the Literature

Despite the extensive body of research on taxation and SME compliance, several critical gaps remain:

- **Limited Focus on Emerging Markets:** Much of the existing research has been conducted in developed economies with well-structured tax regimes. There is a lack of empirical evidence on how tax policies affect SMEs in emerging markets, where regulatory environments are often unstable and enforcement mechanisms are weak (Nurunnabi, 2017).

- Lack of Integration with Sustainable Development Goals (SDGs): While studies have explored the financial impact of taxation on SMEs, few have investigated its broader implications for sustainable development, including environmental responsibility, social inclusion, and long-term economic resilience (Tingbani et al., 2021)
- Scarcity of Case Study-Based Research: Many prior studies rely on large-scale quantitative analyses without considering the contextual complexities faced by SMEs in specific markets. Case study approaches, which provide in-depth insights into tax compliance behavior and business decision-making, are underutilized (Fjeldstad et al., 2012).
- Tax Policy Optimization for SME Growth: While there is consensus that taxation can either support or hinder SME development, there is a lack of research on how tax policies can be optimized to balance revenue generation with SME growth and sustainability (Bird & Zolt, 2008).

3. Contribution of This Study

This study seeks to address these gaps by providing a comprehensive analysis of SME taxation in emerging markets through a case study approach, with a particular focus on its implications for business growth and sustainable development. Specifically, this research contributes in the following ways:

- Empirical Insights from Emerging Markets: By focusing on SMEs in developing economies, this study provides context-specific findings that are often missing in mainstream tax compliance literature.
- Integration of Taxation with Sustainability: This study extends the discussion beyond compliance and revenue collection to examine how tax policies can contribute to broader sustainable development objectives, aligning SME taxation with the United Nations Sustainable Development Goals (SDGs).
- Case Study-Based Analysis: Through an in-depth case study approach, this research offers nuanced insights into SME decision-making regarding tax compliance, identifying best practices and policy recommendations that are tailored to real-world conditions.
- Policy Recommendations for Balanced Taxation: The study aims to bridge the gap between tax policy and SME growth by offering practical, evidence-based recommendations for governments and tax authorities to design policies that enhance compliance while fostering economic resilience and sustainability.

By addressing these gaps, this research contributes to the existing body of knowledge on SME taxation and provides valuable insights for policymakers, academics,

and business practitioners seeking to create a more equitable and sustainable tax environment.

NOVELTY AND JUSTIFICATION OF THE STUDY

Despite extensive research on taxation and SMEs, existing literature has primarily focused on tax compliance and its financial implications, often neglecting the broader intersection between taxation, business growth, and sustainable development—particularly in the context of emerging markets (Bird & Zolt, 2008; Tina et al., 2024; Tingbani et al., 2021). This study introduces a novel perspective by integrating tax compliance with SME sustainability and economic resilience, addressing gaps in policy formulation and implementation. The key contributions of this research lie in its theoretical, methodological, and practical advancements to the field of taxation, SME development, and sustainable economic growth.

1. Theoretical Contribution

This research advances tax compliance theories by incorporating sustainability-driven compliance behavior, expanding upon traditional tax compliance models such as the Allingham and Sandmo (1972) deterrence theory (Yaniv, 1999), the Slippery Slope Framework (Kirchler et al., 2008), and the Theory of Planned Behavior (Ajzen, 1991). While existing studies focus on enforcement, deterrence, and voluntary compliance, this study introduces sustainability considerations, examining how tax policies can promote environmental, social, and governance (ESG) initiatives within SMEs. This perspective enhances the understanding of taxation as a mechanism for fostering sustainable business practices, rather than merely a compliance obligation.

2. Methodological Contribution

Unlike prior studies that primarily rely on macro-level econometric analysis (Bird & Zolt, 2008; Slemrod, 2024), this research employs a qualitative case study approach, providing granular, real-world insights into SME tax compliance behavior. Through an in-depth analysis of SMEs in emerging markets, this study captures the lived experiences of business owners, tax authorities, and policymakers, revealing context-specific challenges that quantitative methods often overlook. This case study approach allows for the exploration of causal mechanisms behind tax compliance decisions and their long-term impact on business sustainability.

3. Practical Contribution

From a policy perspective, this study offers a paradigm shift by reconceptualizing tax compliance not as a burden, but as a strategic tool for sustainable business growth. It provides policymakers with actionable recommendations on how tax policies can:

- Enhance SME resilience by reducing tax complexity and administrative burdens, thereby improving long-term survival rates.

- Encourage sustainability-oriented tax incentives, such as green tax credits, preferential rates for ESG-compliant SMEs, and reinvestment incentives for sustainable business practices.
- Promote inclusive tax frameworks that consider the unique structural and operational challenges of SMEs in emerging markets, ensuring a balance between compliance, business viability, and economic development.

By bridging the gap between taxation, SME development, and sustainability, this research redefines the role of taxation in economic policy—positioning it not only as a revenue-generating mechanism but also as a catalyst for long-term economic and environmental sustainability.

Justification of the Study

The significance of this study is justified by the increasing global emphasis on sustainable economic policies and the crucial role of SMEs in national and international economies (Tingbani et al., 2021). Governments and international organizations, such as the United Nations (UN) and the World Bank, recognize that SMEs are fundamental to achieving the Sustainable Development Goals (SDGs), particularly in promoting decent work and economic growth (SDG 8) and responsible consumption and production (SDG 12). However, taxation remains a key obstacle in SME formalization and sustainability, particularly in emerging markets where tax enforcement is weak, and compliance costs are high (Ashari et al., 2023; Prichard et al., 2019).

This study is both timely and essential, as it aligns with the global discourse on:

1. Tax fairness and inclusivity – ensuring that SMEs are not disproportionately burdened by tax systems designed for larger enterprises.
2. Fiscal sustainability – designing tax policies that balance government revenue generation with long-term economic resilience.
3. Sustainability-oriented taxation – leveraging tax systems to incentivize ESG-compliant business practices.

By providing empirical evidence and policy recommendations, this study contributes to the ongoing reform discussions within international tax policy forums and offers practical solutions for policymakers, tax authorities, and SME stakeholders seeking to enhance compliance while fostering business growth and sustainability.

RESEARCH METHOD

1. Research Design and Approach

This study adopts a qualitative multiple case study approach, which is well-suited for exploring complex socio-economic phenomena such as tax compliance, SME growth, and sustainable development in emerging markets. A case study design enables an in-

depth examination of how SMEs navigate taxation policies, comply with regulations, and integrate sustainability strategies within their business models (Eisenhardt, 1989).

Given the dynamic and context-specific nature of tax systems in different economies, this research employs an exploratory qualitative design to capture rich, contextual insights that cannot be fully explained by quantitative methods alone (Creswell & Poth, 2016). The study focuses on multiple SMEs operating in selected emerging markets, ensuring comparative insights that highlight commonalities and differences across various regulatory environments.

2. Research Procedure

The research follows a systematic approach to ensure rigor and credibility:

1. Case Selection – SMEs are selected based on three key criteria:
 - Size & Structure: SMEs with formal tax obligations in emerging markets.
 - Industry Relevance: SMEs operating in sectors significantly impacted by taxation and sustainability policies, such as manufacturing, retail, and services.
 - Compliance Status: A mix of SMEs with high, moderate, and low levels of tax compliance to capture diverse experiences.
2. Data Collection – The study employs multiple sources of evidence to enhance validity and triangulation (Fusch et al., 2018):
 - In-depth semi-structured interviews with SME owners, tax authorities, policymakers, and financial experts.
 - Document analysis of tax policies, financial reports, and sustainability disclosures.
 - Observational studies in selected SMEs to understand real-world tax compliance behaviors.
3. Data Analysis – Thematic analysis (Braun & Clarke, 2019) is conducted using NVivo software to identify recurring patterns and relationships among taxation, compliance, growth, and sustainability. The study follows an iterative coding process to refine emerging themes and ensure consistency in interpretation.
4. Validation & Reliability – Member checking and expert validation techniques (Lincoln & Guba, 1985) are employed to enhance the credibility and trustworthiness of findings (Beck et al., 1994).

3. Taxation and SMEs in Emerging Markets: Linkages to Compliance, Growth, and Sustainable Development

The study investigates the interdependencies between tax policies, SME compliance, business growth, and sustainability initiatives through the following conceptual dimensions:

- Tax Compliance Behavior: Examines how SMEs perceive tax obligations and what factors influence their willingness to comply, including tax complexity, administrative burden, enforcement strategies, and perceived fairness (Fjeldstad et al., 2012)
- Business Growth Implications: Analyzes how taxation affects SME expansion, investment decisions, and access to financial resources (Tingbani et al., 2021)
- Sustainable Development Contributions: Explores how taxation policies incentivize or hinder SMEs in adopting sustainable business practices aligned with ESG principles and the UN Sustainable Development Goals (SDGs) (Khan et

al., 2023; Waskita, Ashari, Eldon, et al., 2024)

This integrated approach ensures that the research not only captures compliance dynamics but also sheds light on policy improvements that can foster SME growth and sustainability.

4. Data Collection Techniques

To ensure robust data collection, the study employs the following techniques:

- Semi-Structured Interviews: Conducted with SME owners, tax consultants, government tax officers, and sustainability experts to gain comprehensive perspectives on tax compliance behavior and regulatory challenges.
- Focus Group Discussions (FGDs): Organized among SMEs within industry clusters to identify common pain points and best practices regarding taxation and sustainability compliance.
- Policy Document Review: Examination of tax regulations, sustainability policies, and industry reports from institutions such as the OECD, World Bank, IMF, and local tax authorities.
- Archival Data Analysis: Includes SME financial statements, tax records, and business reports to validate findings from interviews and focus groups.

5. Literature Review and Theoretical Framework

This study builds upon existing literature in the following domains:

- Taxation and SME Compliance: Prior research highlights factors influencing compliance, such as perceived fairness, enforcement mechanisms, and administrative burden (Prichard et al., 2019).
- Taxation and Business Growth: Studies suggest that complex tax policies often hinder SME scalability by increasing financial strain and compliance costs (Bird & Zolt, 2008).
- Taxation and Sustainable Development: Limited research exists on how tax policies can align with sustainability objectives for SMEs, particularly in emerging economies (Waskita et al., 2025; Khan et al., 2023).

This study contributes by bridging these areas, demonstrating how taxation can serve as both an economic constraint and a strategic enabler for sustainable SME development.

FINDINGS

1. Interpretation of Findings

The findings of this study highlight the intricate relationship between tax compliance, SME growth, and sustainable development in emerging markets. The case study approach reveals that tax compliance among SMEs is influenced by a combination of regulatory complexity, financial constraints, and perceived fairness in taxation systems. Many SMEs struggle with understanding and fulfilling tax obligations due to inconsistent enforcement and administrative burdens, leading to varying degrees of compliance.

From a growth perspective, SMEs that engage in strategic tax planning and leverage government incentives tend to experience higher scalability and long-term sustainability. However, excessive tax burdens can deter expansion, leading some SMEs to operate in the informal economy to avoid compliance costs. This finding aligns with prior research indicating that high tax rates and bureaucratic inefficiencies push SMEs towards tax avoidance behaviors (Khan et al., 2023).

In terms of sustainability, tax incentives for eco-friendly business practices are underutilized due to a lack of awareness and regulatory clarity. SMEs that integrate sustainability initiatives, such as green innovation and ESG compliance, tend to benefit from better financial performance and regulatory goodwill. These results confirm earlier studies that suggest taxation policies can serve as drivers or barriers to sustainable entrepreneurship (Netto & Ferreira, 2024).

2. Impact on Theory and Practice

The findings contribute to taxation and SME literature by introducing a comprehensive framework that links tax compliance, SME growth, and sustainability in emerging economies. This expands the existing body of knowledge beyond traditional compliance models by integrating sustainability considerations.

For policymakers, the study suggests that simplifying tax regulations, enhancing digital tax systems, and introducing targeted incentives for sustainable business practices can boost SME compliance rates while fostering economic resilience. In practice, SMEs can benefit from financial literacy programs and advisory services to navigate taxation complexities more effectively.

3. Research Limitations

Despite its contributions, the study has some limitations:

- Limited geographical scope, as the findings are based on specific emerging markets and may not fully apply to other contexts.
- Data collection constraints, as tax compliance behaviour is often sensitive, and self-reported data may contain biases.
- Regulatory variations, since tax policies differ across jurisdictions, making cross-country comparisons challenging.

Future research should address these limitations by conducting larger-scale, comparative studies across multiple emerging economies and incorporating quantitative tax compliance metrics.

4. Suggestions for Future Research

To build upon these findings, future research should:

- Conduct longitudinal studies to examine how tax compliance patterns evolve over time.
- Explore the behavioural aspects of tax compliance, particularly how digital taxation systems influence SME behaviour.
- Assess the effectiveness of sustainability tax incentives in driving green business practices.
- Compare SME tax compliance across different regulatory and economic environments to identify best practices.

5. Social and Ethical Implications

The study highlights several ethical and social concerns related to taxation and SMEs:

- Tax equity and fairness, as smaller businesses often bear a disproportionate tax burden compared to large corporations.
- The role of taxation in sustainability, emphasizing how fiscal policies can either encourage or hinder environmental responsibility among SMEs.
- Transparency and governance, where unclear regulations and corruption may reduce trust in tax authorities, further discouraging compliance.

By addressing these social and ethical dimensions, governments and SMEs can

foster a more inclusive, transparent, and sustainable taxation system that balances economic growth with social responsibility.

DISCUSSION

The findings of this study reveal that tax compliance among SMEs in emerging markets is significantly influenced by regulatory complexity, financial constraints, and perceived fairness in taxation systems. SMEs often face challenges in understanding and adhering to tax obligations due to frequent policy changes, administrative inefficiencies, and limited access to tax advisory services. This complexity discourages compliance, leading to a high prevalence of informal economic activities, which is consistent with previous studies on tax morale and compliance behavior (Prichard et al., 2019). Additionally, excessive tax burdens and compliance costs reduce SMEs' financial flexibility, thereby limiting their ability to invest in growth-oriented strategies such as market expansion, digitalization, and sustainability initiatives. These findings align with Kirchler et al. (2008), who argue that taxpayer behavior is shaped by both coercive measures (e.g., audits and penalties) and voluntary compliance incentives (e.g., tax education and fair enforcement). In this context, SMEs that perceive the tax system as unfair, overly punitive, or lacking transparency are more likely to adopt tax avoidance strategies or underreport taxable income. Conversely, businesses that benefit from clear regulatory frameworks and well-designed tax incentives demonstrate higher compliance levels and stronger commitments to long-term sustainability. These results underscore the urgent need for policy interventions that reduce bureaucratic hurdles, enhance digital tax administration, and introduce progressive tax incentives for SMEs engaging in sustainable business practices.

CONCLUSION AND RECOMMENDATIONS

This study provides a comprehensive examination of the relationship between tax compliance, SME growth, and sustainable development in emerging markets. The findings highlight that regulatory complexity, financial constraints, and perceived fairness in taxation policies significantly impact SMEs' compliance behaviors. Many SMEs struggle with excessive administrative burdens and unclear tax regulations, leading to high rates of informality and tax avoidance. However, businesses that adopt strategic tax planning and leverage government incentives demonstrate better financial resilience and long-term growth potential.

Furthermore, the study underscores that sustainability-oriented tax policies remain underutilized due to a lack of awareness and regulatory misalignment. SMEs that integrate sustainability strategies, such as green innovation and ESG compliance, tend to experience enhanced market competitiveness and regulatory goodwill. These findings emphasize the critical role of well-designed tax systems in fostering SME growth and promoting sustainable economic development.

From a theoretical perspective, this study extends existing literature by integrating sustainability considerations into SME tax compliance frameworks, demonstrating that fiscal policies can serve as both enablers and barriers to sustainable entrepreneurship. The results call for a paradigm shift in taxation strategies, where compliance is incentivized through simplified regulations, digital tax administration, and sustainability-driven fiscal incentives.

Based on these findings, several policy and managerial recommendations are proposed:

1. Regulatory Simplification and Digital Tax Administration
 - Governments should simplify tax procedures and reduce compliance costs to encourage SME participation in formal economic activities.
 - The adoption of digital taxation systems can improve transparency, reduce bureaucratic inefficiencies, and enhance tax revenue collection.
2. Incentive Structures for Sustainable Business Practices
 - Tax authorities should introduce targeted incentives for SMEs adopting green business practices, such as tax deductions for energy-efficient investments or carbon footprint reductions.
 - Policymakers must ensure that sustainability-oriented tax policies are well-communicated and accessible to SMEs.
3. Financial and Tax Literacy Programs
 - Capacity-building initiatives should be implemented to enhance SMEs' understanding of tax obligations and strategic compliance.
 - Partnerships between governments, financial institutions, and academic institutions can provide SMEs with customized advisory services to navigate taxation complexities.
4. Strengthening Compliance through Fair and Transparent Enforcement
 - Governments should adopt a balanced approach between enforcement and incentive-based tax policies to build trust and encourage voluntary compliance.
 - Establishing transparent dispute resolution mechanisms can mitigate SMEs' concerns about unfair taxation practices.
5. Future Research Directions
 - Future studies should expand empirical testing by incorporating quantitative tax compliance metrics across diverse SME sectors and emerging markets.
 - Longitudinal research could examine the long-term impact of taxation policies on SME growth trajectories and sustainability adoption.
 - Comparative studies across multiple economies could help identify global best practices in SME taxation and sustainable development.

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