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The Influence of Tax Policies on Investment Decisions and Business Development of Micro, Small, and Medium-Sized Enterprises (MSMEs) and its Implications for Economic Growth in Indonesia

Anna Sofia Atichasari[1], Asep Marfu[2]

[1]Department of Accounting, Faculty of Economics and Business, Syekh-Yusuf Islamic University, Indonesia

[2]Banten General Regional Hospital, Serang, Indonesia

ABSTRACT: This study investigates the relationship between tax policies, investment decisions, business growth, and economic growth in Micro, Small, and Medium-Sized Enterprises (MSMEs). The purpose is to examine the influence of tax policies on investment decisions and business development and their implications for economic growth. Using a quantitative strategy based on a survey research design, data were collected from a sample of MSMEs. The findings indicate that favorable tax policies positively influence MSMEs' investment decisions and business growth. Policymakers should design tax policies that incentivize investment and business growth, while MSMEs should strategically leverage favorable tax policies to drive growth and competitiveness. The study's limitations include its regional focus and reliance on self-reported data. Future research should take longitudinal studies and contextual factors into account. Overall, the study provides policymakers and MSMEs with insights for promoting sustainable growth and development in the MSMEs sector, resulting in favorable economic outcomes.

KEYWORDS: Tax policies, investment decisions, business development, economic growth

INTRODUCTION

Any country's principal goal should be to achieve long-term economic growth (Al-Qudah et al., 2022). In Indonesia, the micro, small, and medium-sized enterprise (MSMEs) sector is critical to generating economic growth, creating job opportunities, and eliminating economic inequities (Prasetyo, 2020). On the other hand, MSMEs frequently need help developing their operations, including restricted access to financing, technology, and other resources (Rizos et al., 2016). Tax policy can be a deciding element in investment decisions and business development in attempts to encourage the growth and sustainability of MSMEs (Islam & Wahab, 2021). Tax laws that are well-designed and supportive can create incentives for MSMEs to boost their investments in product development, market expansion, and competitiveness (Hidayati & Rachman, 2021). In contrast, fair and costly tax laws can stymie MSMEs and reduce their willingness to expand and grow (Werekoh, 2022).

However, research on the impact of tax laws on MSMEs' investment decisions and business development, as well as their consequences for economic growth, needs to be more extensive in Indonesia. As a result, a better understanding of this relationship must influence policy revisions that align with Indonesian MSMEs' demands and features (Annisa & Mahendrawathi, 2019). A deeper understanding of how tax policies influence investment decisions and the development of MSMEs in Indonesia is critical to achieving sustainable and inclusive economic growth (Prasetyo & Kistanti, 2020; Surya et al., 2021; Susan, 2020). This research will give significant insights to the government, regulators, and other stakeholders in formulating tax policies that assist MSME growth while driving general economic growth.

Thus, research on the impact of tax policies on MSMEs' investment decisions and business development and their implications for economic growth will provide a more comprehensive understanding and a solid foundation for developing sustainable and inclusive MSMEs policies in Indonesia. There needs to be more literature on the impact of tax policies on investment decisions and company development in Indonesian micro, small, and medium-sized enterprises (MSMEs). There need to be more thorough studies that precisely explore the relationship between tax policies and their implications for MSMEs' long-term economic growth. The current research frequently focuses on larger firms or broad tax policies, with little regard for MSMEs' special issues and features. As a result, there needs to be more study gap in understanding how tax policies may successfully support the growth and development of MSMEs while contributing to Indonesia's long-term economic growth.

This study seeks to address a research gap by concentrating on the impact of tax laws on investment decisions and business development of MSMEs in Indonesia and their implications for long-term economic growth. This research will provide insights into the effectiveness of tax policies in supporting MSME growth and their contribution to the broader economy by examining the unique demands and problems MSMEs face. The study will also examine specific tax breaks and regulations that apply to MSMEs and investigate their impact on investment decisions and business development. The research is unique because it focuses on MSMEs and the Indonesian environment. It gives useful insights for policymakers, regulators, and stakeholders in establishing tax policies that promote MSME growth and contribute to long-term economic development.

LITERATURE REVIEW

Tax policy can have a large influence on investment decisions (Bialowolski & Weziak-Bialowolska, 2014). Favorable tax laws, such as tax breaks for capital expenditures, may motivate businesses to invest in productive resources, innovation, and growth (Zahra & Wright, 2016). These measures minimize the tax burden while increasing after-tax gains on investing, making it more appealing (Evers et al., 2015). Unfavorable tax policies, on the other hand, such as high tax rates or complicated requirements for compliance, may prevent enterprises from making major investments (Lawless, 2013). In turn, investment decisions generate economic growth by increasing capital accumulation, enhancing productivity, and expanding economic activity (Chijioke & Amadi, 2019). Business development is critical to driving economic prosperity (Ribeiro-Soriano, 2017). Businesses that expand create jobs raise income levels, and contribute to an economy's output of products and services (Chen et al., 2021). Shahbaz et al. (2016) assess that business development increased consumption, investment, and exports result from business expansion, which are important economic growth drivers. Furthermore, company development promotes innovation, technology adoption, and knowledge transfer, which are critical for long-term economic success. Tax policies directly impact economic growth by influencing investment decisions and business development (Kim et al., 2022; Mdanat et al., 2018; Vedia-Jerez & Chasco, 2016). Favorable tax laws can boost investment, entrepreneurship, and innovation, increasing corporate activity and economic expansion (Zahra & Wright, 2016). In addition, Mazzola (2021) assert that tax policies help to job creation, income generation, and overall economic growth by providing incentives for business development. Taxation, investment decisions, business development, and economic growth are all intertwined. Favorable tax policies that stimulate investment and business development can help to boost economic growth by promoting investment, increasing productivity, generating job opportunities, and supporting innovation. Policymakers must devise tax policies that balance generating revenue and encouraging investment and business development, ensuring long-term economic growth and prosperity (Raihan et al., 2022). Based on the previous description, the hypotheses proposed for this study are as follows:

H1: A significant relationship between tax policies and investment decisions in MSMEs.
H2: A significant relationship between tax policies and business development in MSMEs.
H3: A significant relationship exists between tax policies and economic growth in MSMEs.
H4: A significant relationship exists between investment decisions and economic growth in MSMEs.
H5: A significant relationship exists between business development and economic growth in MSMEs.
H6: Investment decisions mediate the relationship between tax policies and economic growth in MSMEs.
H7: Business development mediates the relationship between tax policies and economic growth in MSMEs.

METHODOLOGY

This study will use the quantitative approach, employing a survey research design. Data will be gathered using questionnaires from respondents representing Tangerang City's micro, small, and medium-sized enterprises (MSMEs). The questionnaire will be created with variables such as tax policy, investment decisions, business development, and economic growth in mind. The questionnaire will be structured to assess respondents' perceptions of these variables on a Likert scale of 1 to 7. The research sample will be chosen with care, considering differences in MSMEs' size and performance levels. Data will be gathered by email and WhatsApp and analyzed using descriptive statistics and path analysis. The research findings will contribute to a better understanding of the relationship between tax policies, investment decisions, business development, and economic growth in Indonesian MSMEs. Furthermore, the research can help to build long-term policies and corporate practices in the sector.

FINDINGS AND DISCUSSION

The indicators were evaluated using the convergent approach and external loading factor values. A loading factor of 0.50-0.70 is deemed suitable for early exploratory research. All indicators in this investigation had loading values more than 0.70, indicating strong convergent validity. The discriminant validity of each latent factor was assessed by comparing the square root of the average variance extracted (AVE) with the model's correlation coefficients. This evaluation assesses whether the variables can differ across various groups. The findings supported discriminant validity. In the last step, composite reliability was also tested to ascertain the dependability of the variable indicators. The results were judged reliable when both the composite reliability and Cronbach's alpha were more than 0.70. Composite reliability assesses the dependability of the variable indicators. The indicators were determined to be reliable in this investigation since both composite reliability and Cronbach's alpha exceeded the 0.70 criterion. According to the findings refers in Table 1, the indicators utilized in the study had good convergent validity, discriminant validity, and reliability. These findings confirm the measurement model's robustness and validity in the investigation (Chin, 2010).

Table 1. Explanatory data result

Construct	Items	Outer Loading	Cronbach's Alpha	rho_A	CR	AVE
Tax Policies	TXPOL1=High tax rates are imposed on enterprises	0.945	0.943	0.955	0.963	0.897
	TXPO2=Government-provided tax incentives encourage business development	0.968				
	TXPO3=The tax compliance requirements imposed on businesses are onerous and intricate	0.927				
Investment Decisions	INDEC1=Our company has allocated substantial capital expenditure funds	0.875	0.728	0.726	0.848	0.652
	INDEC2=We have made significant investments in research and development	0.828				
	INDEC3=Our company has invested in the expansion into new markets	0.711				
Business Development	BUSDV1=Our company has broadened its product or service offerings	0.823	0.788	0.868	0.859	0.671
	BUSDV2=We continually seek new market entry and market presence opportunities	0.805				
	BUSDV3=Customer acquisition and retention are critical considerations for our company	0.829				
Economic Growth	ECGRW1=Our company's revenue has increased significantly	0.926	0.888	0.89	0.931	0.82
	ECGRW2=We have generated a significant number of employments within our company	0.831				
	ECGRW3=Our company has maintained constant profitability	0.955				

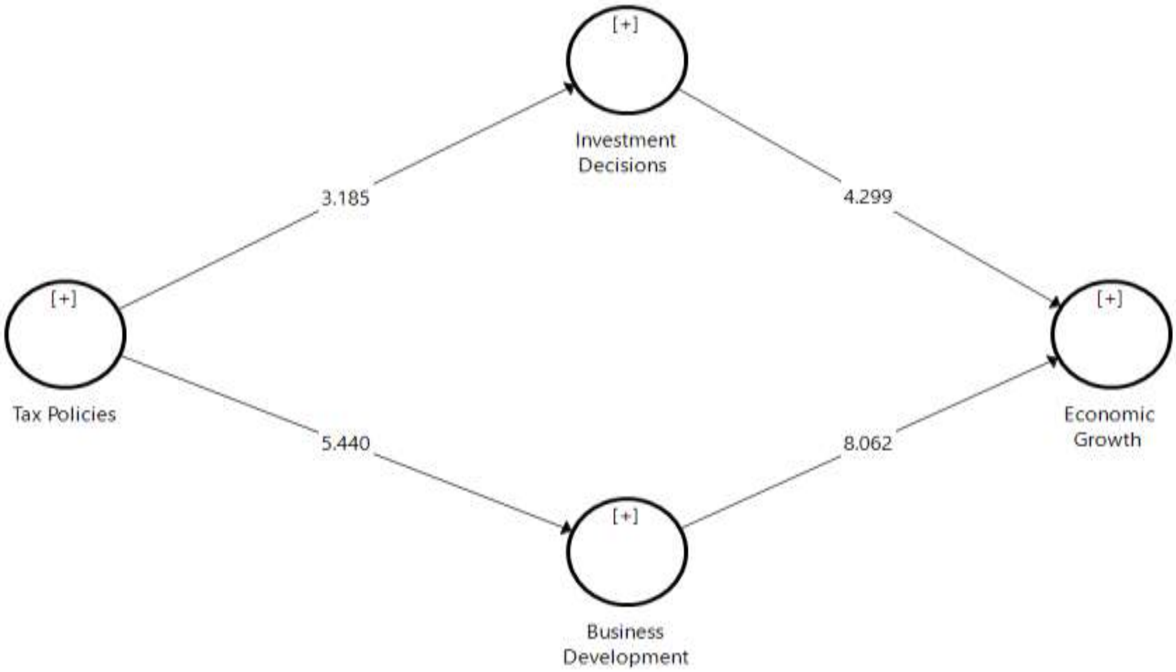

Figure 1. Path Analysis

Hypothesis testing results show that tax policies have a significant and beneficial influence on investment decisions (t=3.170>1.96), business development (t=5.302>1.96), and economic growth (t=2.369>1.96). In addition, investment decisions (t=4.123>1.96) and business development (t=6.105>1.96) impact positively on economic growth. Furthermore, investment decisions (t=2.248>1.96) and business development (t=4.930>1.96) mediates the link between tax policies and economic growth. As a result of the statistical analysis, all hypotheses, from H1 to H7, are supported and accepted (see Table 2).

Table 2. Path Coefficient Result

Hypothesis	Construct	T Statistics	P Values	Result
H1	Tax Policies -> Investment Decisions	3.170	0.002	Accepted
H2	Tax Policies -> Business Development	5.302	0.000	Accepted
H3	Tax Policies -> Economic Growth	2.369	0.018	Accepted
H4	Investment Decisions -> Economic Growth	4.123	0.000	Accepted
H5	Business Development -> Economic Growth	6.105	0.000	Accepted
H6	Tax Policies -> Investment Decisions -> Economic Growth	2.248	0.025	Accepted
H7	Tax Policies -> Business Development -> Economic Growth	4.930	0.000	Accepted

The impact of tax policies on investment decisions is that tax policies have a considerable influence on corporate investment decisions. Advantageous tax policies, such as the provision of tax incentives or lower tax rates, can encourage businesses to invest in a variety of activities, such as expanding operations, acquiring new assets, or performing R&D. Favorable tax laws create an environment that encourages investment and fosters economic growth by lowering the tax burden and raising the possible return on investment. On the other hand, unfavorable tax policies, such as high tax rates or complicated compliance requirements, deter enterprises from making major investments. Burdensome tax laws may reduce the potential profitability of investments and provide disincentives for enterprises to dedicate resources to expansion or innovation. Businesses may be more likely to delay investments or seek alternative investment possibilities in jurisdictions with more favorable tax policies in such instances. In general, the effect of tax policy on investment decisions is critical for determining the investment environment. Governments can impact the level and direction of investment flows by establishing and implementing tax policies that are favorable and conducive to investment, which in turn contributes to economic growth, job creation, and greater productivity.

The impact of tax policies on business development is that tax policies can substantially impact corporate growth and development. When tax policies are favorable, such as tax incentives or exemptions, they can provide financial relief to businesses while creating a favorable atmosphere for their expansion and development. These favorable tax regulations can free up financial resources for enterprises to invest in R&D, marketing, hiring, and other business development initiatives. In contrast, negative tax policies, such as high tax rates or onerous compliance requirements, can constrain businesses, reducing their capacity for growth. Too onerous taxation may drain resources away from business development efforts, limiting a company's ability to thrive. Tax regulations have an impact on business development that goes beyond financial considerations. Tax policies can also impact the general business climate, regulatory environment, and market competitiveness. Governments can encourage entrepreneurship, innovation, and market expansion by enacting tax laws that encourage business development. It, in turn, contributes to employment creation, higher productivity, and overall economic growth. Policymakers must carefully assess the impact of tax policies on business development and find a balance between revenue generation and encouraging corporate growth and sustainability. Governments may create an environment that supports business development, stimulates economic growth, and improves firm competitiveness in domestic and worldwide markets by establishing and implementing advantageous tax laws.

The effect of tax policies on economic development is that tax policies significantly influence a nation's economic performance as a whole. Economic growth can be affected both directly and indirectly by fiscal policy. Directly, tax policies affect government revenue, which can impact public expenditure on infrastructure, education, healthcare, and other sectors vital to long-term economic growth. Lower tax rates or concessions encourage investor confidence, promote entrepreneurship, and entice foreign investment, contributing to economic growth. Indirectly, tax policies affect the conduct of individuals and businesses, impacting economic growth. By favorable tax policies, businesses can be incentivized to invest in R&D, innovation, and expansion, resulting in increased productivity and competitiveness. In addition, tax policies can influence consumer behavior by affecting disposable income, purchasing power, and savings rates, impacting consumption patterns and aggregate demand. However, it is essential to note that the impact of tax policies on economic growth is complex and can vary depending on the particular context and design of the tax system. Factors such as the aggregate tax burden, tax structure, progressivity, and tax administration efficiency also play a role in determining the overall impact of tax policies on economic growth. Therefore, policymakers must carefully consider the design and implementation of tax policies to balance economic growth and revenue generation. Tax policies that foster investment, innovation, and entrepreneurship while ensuring fairness and efficiency can contribute to the growth and development of the economy over the long term.

Investment is essential for economic growth and expansion because it fuels economic expansion. The economy benefits from investment decisions such as designating funds for expenditures on capital, research and development, and business expansion. It involves raised output and manufacturing, the creation of jobs, generating income, and increasing consumer expenditure. Investment also encourages innovation, technological advancement, and industry development. Investment's multiplier effect increases demand, production, and revenue throughout the supply chain. Nonetheless, investment climate, financing accessibility, regulatory frameworks, and macroeconomic stability can influence the impact of investment decisions on economic growth. Governments and policymakers play a crucial role in fostering investment through favorable policies, access to capital, and a stable economic environment. Investment decisions contribute substantially to long-term economic growth and development.

Investment decisions in MSMEs are important in mediating the relationship between tax policies and economic growth. Tax policies, whether through incentives or reductions, directly impact the financial resources readily accessible to enterprises. However, the actual effect on economic growth is mediated by MSMEs' investment decisions. Favorable tax rules enable businesses to direct resources towards productive activities such as growing their operations or pursuing R&D. These investments boost productivity and competitiveness, resulting in economic growth. Unfavorable tax policies discourage investment and restrict economic growth potential. Investment decisions operate as a bridge builder, deciding how tax policies transform into actual expenditures and their impact on economic growth. When creating tax policies to reward MSMEs and foster economic growth, policymakers should examine the role of investment decisions.

Business development acts as a bridge in the interaction between tax policy and economic growth in MSMEs. Tax laws directly impact the financial resources available to enterprises, but MSMEs' business development efforts mediate their impact on economic growth. Favorable tax rules foster business development by allowing MSMEs to invest in expanding operations, upgrading products or services, and implementing innovative techniques. These efforts at business development contribute to higher productivity and competitiveness, which drives economic growth. Unfavorable tax laws, conversely, can stifle business growth by limiting financial resources and hampering expenditures in innovation and expansion. Business development is a bridge builder by determining how tax policies translate into substantial business growth, influencing economic growth. When creating tax policies to incentivize MSMEs and promote general economic growth, policymakers should examine the importance of business development.

CONCLUSION

The study's findings emphasize the critical significance of tax policy in affecting investment decisions, business development, and economic growth in the context of MSMEs. According to the findings, favorable tax policies positively impact investment decisions and healthy development, both of which contribute to economic growth. The importance of providing an appropriate tax environment that promotes MSMEs' growth and development is highlighted by the mediating role of investment decisions and company development.

IMPLICATION

The study findings have several consequences for policymakers, SMEs, and other stakeholders. First, policymakers should consider developing tax policies that give incentives and support for investment and business development, as they are important drivers of economic growth. Second, MSMEs should be aware of the potential benefits of favorable tax policies and strategically use them to drive their growth and competitiveness. Finally, other players, such as industry groups and financial institutions, can assist MSMEs in negotiating tax rules and reaping the greatest benefits.

LIMITATIONS

While this study provided significant insights, numerous limitations should be noted. First, the study focused on the specific context of MSMEs in a specific region, which may restrict the findings' generalizability. Second, the study relied on self-reported data, which respondents could bias. Furthermore, the cross-sectional methodology of the study provides a snapshot of the interactions. However, longitudinal studies may provide a full knowledge of the dynamics between tax policy, investment decisions, business development, and economic growth.

FUTURE RESEARCH RECOMMENDATIONS

In expanding on the current work, future research can look into the following areas of exploration. To begin, broadening the scope to encompass a broader range of industries and geographic regions might improve the findings' generalizability. Second, undertaking long-term studies that examine the influence of tax policies on investment decisions, business development, and economic growth would provide insight into the long-term implications. Furthermore, investigating the mechanisms and channels by which tax laws influence investment decisions and business development may provide a better understanding of the underlying processes. Finally, looking at the influence of other contextual factors, such as regulatory frameworks and access to funding, in conjunction with tax policies, could provide a more comprehensive picture of the factors influencing MSME growth and economic development.

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