



## Tax Incentive Policy and Recovery of SMEs in the post-COVID Period: The Moderating Role of Perceived Policy Effectiveness in Indonesia

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### ABSTRACT

The efficacy of the lockdown measures implemented by the Indonesian government in mitigating the spread of COVID-19 has been proven, albeit at the cost of significant economic repercussions. The Indonesian government expeditiously enacted a comprehensive tax and fee reduction policy as a precautionary measure against adverse shocks. This study tries to prove (through the SME's perspective) whether the tax incentives provided by the government have a positive impact on SMEs in maintaining their sustainable financial performance that leads to the survival-recovery of SMEs. This study also tries to observe the moderating effect of the perceived effectiveness of the implementation of tax assistance to increase the positive influence of the policy. Researchers collected data through a survey by distributing questionnaires to 1026 SMEs in Cianjur, Sukabumi, Bandung, and Bogor cities and Regencies. The data were then analyzed using the PLS-SEM method with the help of SMARTPLS version 3. The results showed that tax incentives from the government for SMEs have a significant positive effect on their sustainable financial performance and survival-recovery of SMEs. Indirectly, government tax incentives positively affect SMEs' survival-recovery via the mediating role of sustainable financial performance. In addition, the perceived effectiveness of tax policy implementation positively moderates the effect of this relationship, thus increasing the impact of tax incentives on sustainable financial performance. In the end, sustainable financial performance has been proven to positively influence the survival and recovery of SMEs during a pandemic. This research closes with government policy recommendations for helping SMEs recover their performance in future crises.

### KEYWORDS

tax incentives, perceived policy effectiveness, sustainable financial performance, COVID-19 pandemic, SMEs

JEL E5, G4, L26

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## Политика налогового стимулирования малого и среднего бизнеса в постковидный период: сдерживающая роль воспринимаемой эффективности политики в Индонезии

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### АННОТАЦИЯ

Эффективность мер изоляции, введенных правительством Индонезии для смягчения распространения COVID-19, была доказана, хотя и ценой значительных экономических последствий. Индонезийское правительство оперативно приняло всеобъемлющую политику снижения налогов и сборов в качестве меры предосторожности для недопущения неблагоприятных последствий.

В исследовании предпринята попытка доказать в разрезе малого и среднего бизнеса, оказывают ли налоговые льготы, предоставляемые правительством, положительное влияние на бизнес в поддержании устойчивости их финансовых показателей, а также приводит ли эти льготы к восстановлению малого и среднего бизнеса. Также предпринята попытка исследовать смягчающий эффект воспринимаемой эффективности реализуемой налоговой политики для увеличения ее положительного влияния. Данные для исследования мы собрали в ходе опроса, распространив анкеты среди 1026 малых и средних предприятий в городах и округах Чианджур, Сукабуми, Бандунг и Богор. Затем данные были проанализированы с использованием метода PLS-SEM с помощью SMARTPLS (версия 3). Результаты показали, что налоговые льготы для малого и среднего бизнеса оказывают значительное положительное влияние на устойчивость их финансовых показателей, а также в плане восстановления этого бизнеса в постковидный период. Налоговые льготы оказывают положительное влияние на выживание и восстановление малого и среднего бизнеса именно через повышение устойчивости финансовых показателей бизнеса. Кроме того, воспринимаемая эффективность реализации налоговой политики положительно смягчает эффект этой взаимосвязи, тем самым увеличивая влияние налоговых стимулов на устойчивость финансовых показателей. В итоге было доказано, что повышение устойчивости финансовых показателей положительно влияют на выживание и восстановление малого и среднего бизнеса. Данное исследование завершается рекомендациями в отношении государственной политики, направленными на то, чтобы помочь малому и среднему бизнесу сохранить устойчивость своих финансовых показателей в возможных будущих кризисах.

#### КЛЮЧЕВЫЕ СЛОВА

налоговые льготы, предполагаемая эффективность политики, устойчивость финансовых показателей, пандемия COVID-19, малый и средний бизнес

### 1. Introduction

Measures aimed at curbing the transmission of the COVID-19 pandemic, including quarantine protocols and mobility constraints (i.e., lockdowns), have resulted in a deceleration of the global economy. The curtailment of mass production due to disturbances in worldwide supply chains and diminished overall demand persists in impeding investment and undermining the sustainability of commercial enterprises and consumers [1].

The crisis has significantly impacted the SME sector, a crucial economic component. According to a Bank Indonesia (BI) survey in March 2021, a significant proportion of SMEs, precisely 87.5%, were adversely impacted by the pandemic. Furthermore, 93.3% of business actors in this sector reported decreased sales turnover. The circumstance above has forced stakeholders within the Penta Helix corridor to pursue optimal exit strategies that facilitate sustainable performance and recovery of SMEs.

Manrejo et al. [2] and Zutshi et al. [3] have elucidated how SMEs can sustain their

growth and endure during times of crisis. Their study's findings indicate that SMEs' enduring expansion and adaptability are closely linked to internal and external factors. A company's internal components that hold significant importance include the company's performance, employee performance, and the attributes and performance of managers or company owners. Regarding the external sector, the essential factors include government participation, suppliers, and consumers. The development of a sustainable SME business is facilitated by a combination of internal and external factors that work in tandem.

Several prior investigations, including those conducted by [4–6], have focused on exploring the collective impact of governmental support and the capacity of SMEs to innovate and adjust to weather the crisis. The scholarly literature posits that the ability of SMEs to adapt and innovate in their marketing and service operations exerts a substantial impact on the sustainability of their businesses.

Simultaneously, governmental aid facilitates the implementation of these

innovative endeavors [7]. Some studies have observed the effect of specific policy factors on the continuity of SMEs' business. For instance, Le et al. [8] found that tax-supporting policy positively influences SMEs' survival-recovery. Kurniawan [9] also found that the banking waiver policy from the government has affected sustainable financial performance. Regrettably, based on the researcher's observations, prior studies have overlooked several aspects. Besides, research on the impact of government assistance on the sustainability of SMEs during times of crisis, particularly in emerging economies like Indonesia, remains limited. One of the specific policies that is rarely examined is the tax incentive policy.

Commencing in March 2020, the government has implemented diverse tax incentive programs for commercial entities, encompassing SMEs. SMEs are eligible for various tax incentives such as exemption from PPh 21 and 22, final PPh incentives PP 23, incentives for installments of PPh articles 25 and 29, VAT incentives, and exemption from import duties for specific categories of goods [10].

*This study investigates* the influence of government tax incentives policy on SMEs' sustainable financial performance amidst the ongoing pandemic crisis. Furthermore, as one of the study's novelties, the study also observes the potential moderating role of perceived effectiveness of incentives implementation in the association between the policy and the sustainable financial performance of SMEs during times of crisis.

It is crucial to monitor the perceived effectiveness of the policy. According to scholarly research conducted by [10] and [11], the perceived effectiveness of implementation by society plays a crucial role in achieving the goals of a policy. The present research builds upon the prior works of [4; 13], demonstrating that the sustainable financial performance of SMEs can be enhanced through strategic exploration and government support in fostering business networks. This study hypothesizes that providing effective government tax incentives can positive-

ly impact SMEs' sustainable financial performance. The sound financial performance of SMEs is crucial for their recovery and survival amidst the ongoing pandemic crisis. Effective policy implementation will also increase the positive effect of the policy incentives.

*This study poses the inquiry* as to:

1. How do SMEs' tax incentives influence the sustenance of their financial performance and enhance their likelihood of survival-recovery amidst the pandemic crisis?

2. Does the moderating effect of SMEs' perception of policy implementation effectiveness on this relationship increase the positive impact of tax incentives?

*The study proposes the five hypotheses* below:

*H1:* Tax incentives from the government directly positively affect the financial performance of MSMEs as measured by ROA, ROE, and ROS.

*H2:* Government tax incentives also positively influence the recovery and continuity of MSME businesses during the pandemic crisis.

*H3a:* Sustainable financial performance directly has a positive effect on the survival-recovery of SMEs during the pandemic crisis.

*H3b:* Sustainable financial performance positively mediates the relationship between tax incentive policies on the survival-recovery of SMEs.

*H4:* Perceived policy effectiveness positively moderates the relationship between tax incentive policies and sustainable financial performance.

The subsequent section will provide a comprehensive literature review elucidating the theoretical framework employed and the hypotheses formulated. The following section entails an exposition of the research methodology, encompassing an elucidation of the population under study, the sample selection process, the techniques employed for data collection, the variables considered, and the methods used for data analysis. The subsequent section encompasses the findings and analysis, culminating in conclusions based on the research outcomes.

**2. Literature Review**

**2.1. Literature Discussion on How SMEs Maintain Their Financial Performance during the Pandemic Crisis and the Role of Tax Incentive Policies**

The scholarly literature has identified two distinct categories of research that investigate the conduct of SMEs concerning sustaining their competitive performance and enduring periods of crisis.

The works [2] and [3] have conceptualized two distinct groups, emphasizing the importance of optimizing and integrating SMEs’ external and internal fac-

tors to achieve sustainable performance. The triad of external factors comprises governmental entities, consumers, and other pertinent stakeholders. The endogenous factors encompass dimensions of organizational performance, human resources, and aspects of the entrepreneurial acumen of proprietors (Figure 1).

The first research group emphasizes the significance of SME participants’ capabilities in adjusting to the alterations and disturbances due to the COVID-19 pandemic. The initial cohort deliberated on the potential of SMEs to persevere and thrive amidst a pandemic-induced crisis

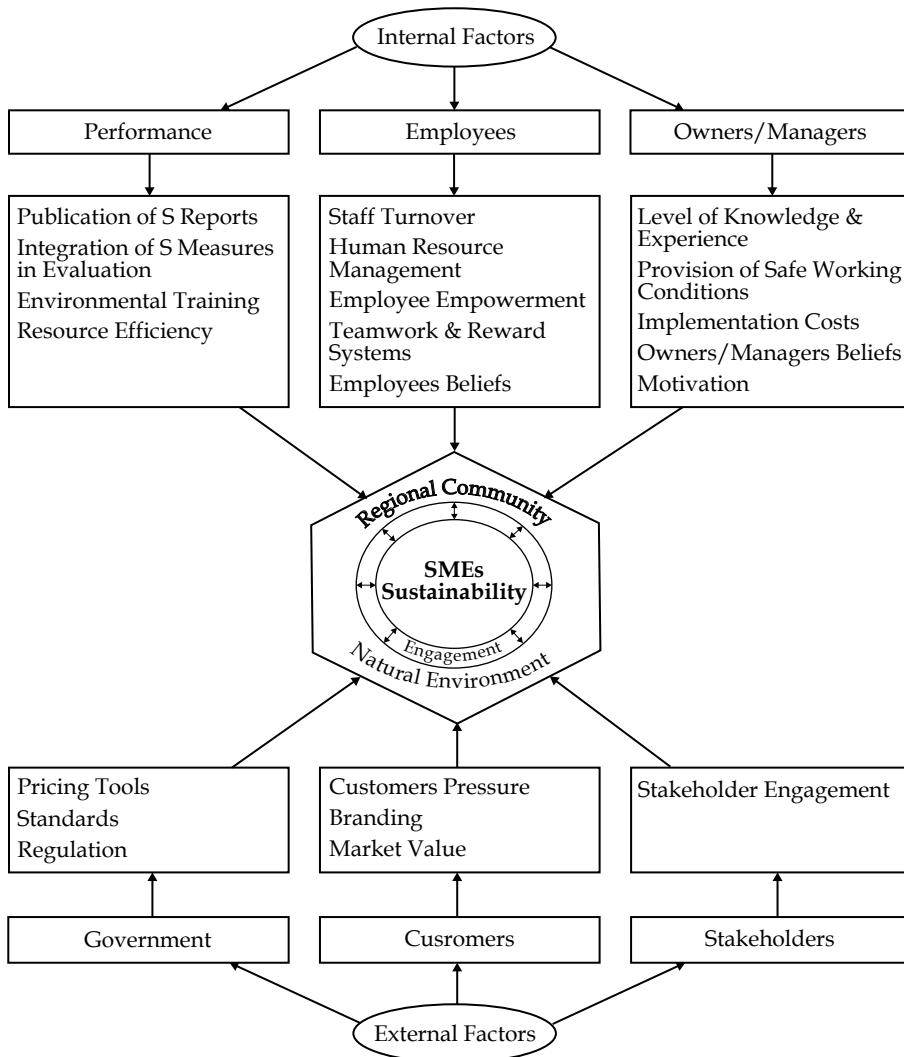


Figure 1. SMEs’ Sustainable Performance Framework [2]

through their unwavering dedication and nimble responsiveness to changing market conditions, as evidenced by the works of [5] and [7]. According to [14], adopting technology and innovative financial practices incorporating digitalization is crucial for enhancing business sustainability during the COVID-19 pandemic. This adaptation is considered one of the most significant innovations for achieving sustainability.

Prior studies have emphasized the significance of technology adoption and open innovation in facilitating business sustainability among women-owned SMEs. According to [14], female SMEs can enhance their competitiveness and meet market demands by adopting open innovation practices in the technology sector, expanding their global network of collaborators, engaging in the purchase and sale of business licenses, updating their technological infrastructure, and forming partnerships with external entities. According to [6], utilizing online resources and expertise to innovate production, marketing, and financial aspects is a viable recovery strategy for SMEs.

The second cohort comprises scholars concentrating on external entities' function in facilitating SMEs' resilience during adversity. The group's primary focus pertains to external factors beyond SMEs' control, including government support, consumer conduct, and investor engagement. The COVID-19 pandemic is a worldwide issue that necessitates a unified approach within a nation, thereby underscoring the significance of governmental involvement in enacting regulations and formulating policies that promote the viability and recovery of SMEs.

The works [4–6] and [14] have researched the impact of government assistance on marketing and product innovation processes and its potential to expedite business recovery processes. The study conducted by Le et al. [8] examines the impact of various forms of economic aid on the resilience and recovery of SMEs in times of crisis. The study revealed that implementing capital injections, banking relief, social insurance policies, and the

active involvement of professional associations had a favorable impact on the long-term viability and recovery of SMEs in Vietnam.

The Indonesian government has implemented its assistance policies through the National Economic Recovery (PEN) program, which encompasses a range of fiscal measures, including taxation, banking, social insurance, capital injection, and other forms of aid. Providing government aid is crucial in optimizing the resources at the government's disposal to sustain a country's macroeconomic state [15]. The policy above offers significant advantages to SMEs in effectively handling and preserving their existing assets, thereby enhancing their productivity during adversity. According to [8], utilizing existing resources, particularly cash flow, is crucial for improving business performance and sustaining profitability and financial well-being.

The present study builds upon prior research conducted by [14] and [16] investigating the potential impact of tax assistance policies on sustainable financial performance and recovery of SMEs during times of crisis, as perceived by MSME actors. The study conducted by [8] does not incorporate the effectiveness factor in examining the ramifications of government assistance policies. The work [16] employed an econometric analysis utilizing cognitive modeling to evaluate effectiveness rather than relying on perceived effectiveness from the perspective of SMEs. This study addresses two areas of research that have not yet been explored, thus filling essential gaps in the existing literature.

The primary hypothesis of this study posits that government policies aimed at providing tax assistance will positively impact sustainable financial performance directly, thereby ultimately influencing business continuity and the recovery of SMEs amidst the ongoing pandemic crisis. As per the works of [4] and [12], sustainable financial performance can be characterized as the capacity of an enterprise to uphold its financial status quo, thereby ensuring profitability and

averting financial adversities. The variable in question is evaluated through a subjective appraisal conducted by MSME stakeholders regarding their business's Return on Assets, Equity, and Sales (ROA, ROE, and ROS).

The works [4] and [12] have elucidated that a subjective evaluation of financial performance was employed due to the challenges associated with obtaining factual information on the return on assets (ROA), return on equity (ROE), and return on sales (ROS) of respondents. It is primarily due to the confidential nature of this data for SMEs, and not all SMEs can compute these ratios consistently. Furthermore, subjective evaluations may enhance the respondents' ease and assurance in articulating their financial performance. Thus, the present research puts forth the subsequent hypothesis.

*H1:* Tax incentives from the government directly positively affect the financial performance of MSMEs as measured by ROA, ROE, and ROS.

*H2:* Government tax incentives also positively influence the recovery and continuity of MSME businesses during the pandemic crisis.

The ratios of ROA, ROE, and ROS are indicative of a business's productivity and profitability. The efficacy of tax incentives for SME actors positively impacts their financial performance. Sustainable financial performance enhances the likelihood of SMEs' survival and recovery during the pandemic crisis. The work [8] characterizes the survival and recovery of SMEs as a subjective evaluation of their success in gradually recuperating from the adverse effects of the COVID-19 pandemic by considering their profitability and financial performance. Consequently, this study proposes the following hypothesis.

*H3a:* Sustainable financial performance directly has a positive effect on the survival-recovery of SMEs during the pandemic crisis.

*H3b:* Sustainable financial performance positively mediates the relationship between tax incentive policies on the survival-recovery of SMEs.

## **2.2. Research Gap: Examining the Moderating Role of Perceived Policy Effectiveness of Tax Incentives**

The effectiveness assessment holds significant importance in determining the degree to which the execution of governmental policies has been successful. Prior research has examined the impact of policy efficacy on the attitudes and level of public attention toward issues that are the focal point of policy formulation. Previous research has identified perceived policy effectiveness as a variable that mediates and moderates the impact of policies or phenomena, as evidenced by studies conducted by [10; 11] and [17].

The works [10] and [11] researched the impact of policy effects on individuals' attitudes and behaviors toward healthy living and recycling practices. The study revealed that the perceived effectiveness of government policies aimed at environmental control facilitated the implementation of environmental regulations. It was attributed to the policies' clarity, precision, and expediency.

The present research posits the perceived efficacy of policies among SME participants could moderate the influence of tax incentive policy factors on sustainable financial performance, as indicated by the results above. The evaluation of the construct under consideration involves the assessment of the tax assistance provided to SME stakeholders in terms of its practicality, efficacy, and precision. This assessment has been documented by [10] and [11] and drawn policy implications from them. Nevertheless, little research has been conducted to investigate the role of perceived effectiveness of policy measures in predicting recycling behaviour. To address this, a model that integrates the TPB and NAM was proposed in this study, and a street survey was conducted to investigate the case. The results illustrate that recycling intention is influenced by subjective norms, perceived behavioural control, moral norms, and awareness of consequences, as well as a newly proposed construct, namely perceived policy effectiveness. The study proved self-reported recycling behaviour (direct behaviour. Im-

plementing favorable tax incentives can positively impact the effectiveness of aid received by SMEs. This measure is expected to sustain SMEs' financial performance and profitability. The achievement of positive financial outcomes will ultimately enhance the organization's capacity to withstand and recover from the crisis. As a result, this study proposes additional hypotheses subsequently.

H4: Perceived policy effectiveness positively moderates the relationship between tax incentive policies and sustainable financial performance.

This research model can be visualized in Figure 2.

### 3. Method

#### 3.1. Data Collection and Sample

The present investigation employs primary data from self-reported surveys conducted online and offline. Digital forms provided by Google are utilized to streamline the online survey process. Enumerators, comprising students and volunteers, are deployed to perform an offline survey by distributing questionnaires directly to potential respondents. Over four weeks, specifically from June 5 to June 26, 2022, a questionnaire was disseminated in Indonesian, acquiring data from 1026 SME participants.

Most participants in the offline survey were derived from West Java province,

focusing on the City and District of Sukabumi, the City of Cianjur, the City and District of Bogor, and the City and District of Bandung. Regarding the online survey, the questionnaires were disseminated non-discriminately through various social media platforms, such as WhatsApp, Facebook, LinkedIn, and Line, without geographical limitations.

Enumerators were trained to comprehend the questionnaire's purpose. They accompanied respondents during the completion process to mitigate the potential for self-report bias from respondents' confusion while completing the questionnaire. The authors of the online survey furnish a brief depiction of the operational definition of each cluster of questionnaire indicator items that embody variables and systematize inquiries in a concise, unambiguous fashion. The authors advise the participants to use initials instead of their full names while responding to the questionnaire. This measure is intended to ensure confidentiality and promote accurate survey completion.

The research employed a purposive sampling technique that involves selecting participants based on predetermined criteria that align with the research objectives. The samples chosen from SME respondents are based on the specific criteria below:

1. The respondent is the official owner or general manager who the owner trusts.

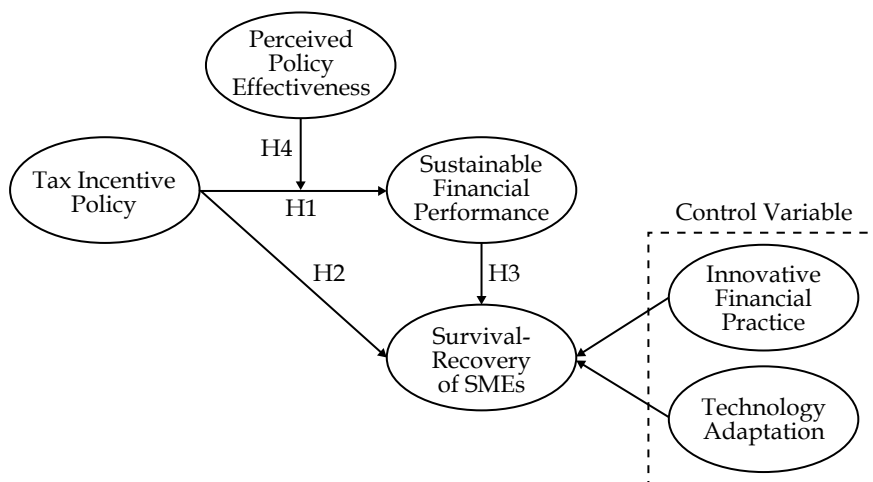


Figure 2. Research Model

2. Following Law Number 20 of 2008 concerning MSME Criteria, the respondent's business must have a minimum annual sale of 60 to 300 million rupiah (taxable income limit).

3. Having a Taxpayer Identification Number (NPWP).

4. Have a minimum of 1 to 5 employees (Law No. 20 of 2008).

5. The business run by the respondent must continue to run during the COVID-19 pandemic starting from March 1, 2020, until the sampling period is carried out.

6. Ever/frequently received tax/duty payment relief from the Directorate General of Taxes and Customs and Excise, namely: exemption from PPh 21 and 22, final PPh incentives PP 23, incentives for installments of PPh articles 25 and 29, VAT incentives, and exemption from import duties.

7. Researchers avoid choosing ultra-micro businesses such as street vendors with carts or small tents because they are most likely unbackable and do not pay taxes.

### 3.2. Measurement and Variable Definition

The research model's construct indicators were evaluated through a structured questionnaire, which aimed to gauge the perceptions and opinions of the respondents. The variables mentioned in the text are assessed through a Likert scale ranging from 1 to 5, where 1 represents strong disagreement, and 5 represents strong agreement.

Before administering the official questionnaire, a pilot study was conducted wherein questionnaires were sent to researchers with doctoral degrees in management and behavioral economics and significant research experience. The purpose of this pilot study was to conduct a peer review of each indicator item. The outcomes that have undergone peer review are subsequently employed as source material for revising each indicator's editorial quality. After that, a group of 30 participants was chosen to complete a preliminary survey to assess the dependability and accuracy of the structured questionnaire. The final data set of the study did not incorporate these thirty participants.

The research model construct comprises four latent variables, two designated as control variables. The study examines the relationship between tax incentives policy (TIP) as an independent variable, perceived policy effectiveness (PPE) as a moderating variable, sustainable financial performance (SFP) as a mediating variable, and the survival/recovery of SMEs (SRS). According to Kurniawan et al. [7], innovative financial practices (IFP) and technological adaptation capabilities (TA) are recognized as significant control variables that exert an impact on the dependent variable, as evidenced by previous studies.

Table 1 delineates the number of indicators and references employed in constructing the questionnaire apparatus.

### 3.3. Data Analysis

The research data were analyzed using a combination of Partial Least Square and Structural Equation Modeling (PLS-SEM). The PLS-SEM analysis process is executed through the utilization of SMARTPLS version 3.

The present study employs the Confirmatory Composite Analysis (CCA) methodology. It relies on a robust theoretical foundation established in prior research, whereby the model construction and latent variable indicators are firmly grounded. The PLS-SEM methodology entails a two-stage analysis process, which involves the examination of both the outer and inner models. The external model comprises a set of statistical analyses conducted to assess the soundness and consistency of constructs composed of a range of indicators within the survey tool.

The instrument's validity was assessed through two different measures, specifically convergent and discriminant validity. The assessment of instrument reliability was conducted through the utilization of Composite Reliability (CR) and Cronbach's alpha (CA) metrics. In the CCA approach, any latent variable that exhibits CR and CA values exceeding 0.70 is deemed reliable. The assessment of convergence validity in the CCA method involves utilizing the Average Variance Extracted (AVE) metric, which should exceed 0.50, as stipulated by [20].



Table 1

## Measurements and Questionnaire Items

Variable	Code	Items	Reference	
Technology Adaptation (TA)	<i>Definition:</i> SME ability to adopt information technology for marketing, reducing operating costs, improving consumer services, increasing reaction time between producers and customers, producers, and input suppliers, and strengthening trade relations.			
	TA1	I sell and offer products/services online more often through social media during the COVID-19 pandemic.		
	TA2	I joined many online groups/communities on social media to get new consumers during the COVID-19 pandemic.		
	TA3	I primarily sell using e-commerce applications (Shopee, TokoPedia, BukaLapak, and others) or Super-App (Gojek, Grab, Maxim, and others) during the COVID-19 pandemic.	[5; 18]	
	TA4	I often use online advertising services to market my business products/services, such as Facebook Ads, Instagram Ads, and Google Ads during the COVID-19 pandemic.		
	TA5	I often coordinate and communicate with suppliers, sales agents, and consumers online via Zoom Meetings or Video Calls on social media during the COVID-19 pandemic.		
Tax Incentive Policy (TIP)	<i>Definition:</i> Various kinds of tax incentive schemes from the government for business actors, including SMEs, including exemption of PPh 21 and 22, final PPh incentives for PP 23 installment, incentives for PPh articles 25 and 29, VAT incentives, and exemption from import duties for several categories of goods.			
	TIP1	I got a tax reduction/exemption from the government (income tax, VAT levy, or import and export duties) during the COVID-19 pandemic.		
	TIP2	I got an extension to pay my outstanding taxes, installments, or arrears during the COVID-19 pandemic.	[4; 6; 8; 19]	
	TIP3	The government has provided an exemption/reduction of late tax payment fines during the COVID-19 pandemic.		
	TIP4	The government has suspended my inspection as a taxpayer during the COVID-19 pandemic.		
	TIP5	In general, I feel very helped by the existence of tax incentives from the government.		
Innovative Financial Practice (IFP)	<i>Definition:</i> Perceptions and objective opinions of MSMEs regarding their ability to use innovative digital financial products/services so that business operations and investments are more effective and efficient.			
	IFP1	I use mobile banking/internet banking more frequently during the pandemic for buying and selling transactions.		
	IFP2	I often use digital wallets such as DANA, OVO, and Gopay/ShopeePay to make it easier for me to transact with sellers and buyers during the COVID-19 pandemic.	[5; 7]	
	IFP3	I use legal and safe online loan/credit applications to meet my business capital needs during the COVID-19 pandemic.		
	IFP4	Using digital financial facilities, in general, makes it easier for my business operations during the COVID-19 pandemic.		

End of Table 1

Variable	Code	Items	Reference
		<i>Definition:</i> Perceptions and objective opinions regarding the effectiveness of implementing government assistance policies are felt by MSME actors as measured by their subjective assessment.	
Perceived Policy Effectiveness (PPE)	PPE1	The tax incentives provided by the government can be relied upon to help my business survive and recover from the impact of the COVID-19 pandemic.	[11; 17]
	PPE2	Government assistance in the form of tax incentives is sufficient to help my business survive and recover from the impact of the COVID-19 pandemic.	
	PPE3	In my opinion, government assistance in the form of tax incentives has been appropriately targeted to those in need.	
	PPE4	In general, government assistance in the form of tax incentives is effective in helping my business survive and recover from the impact of the COVID-19 pandemic.	
		<i>Definition:</i> The ability of a business to maintain financial conditions to remain profitable and avoid financial difficulties as measured by subjective assessments of positive Return on Assets, Equity, and Sales (ROA, ROE, and ROS) during the COVID-19 pandemic.	
Sustainable Financial Performance (SFP)	SFP1	What is the current condition of your business’s net profit (after tax payment compared to total assets (ROA)) compared to the early period of the COVID-19 pandemic?	[4; 13]
	SFP2	What is the current condition of your business’s net profit (after tax payment compared to total Equity (ROE)) compared to the early period of the COVID-19 pandemic?	
	SFP3	What is the current condition of your business’s net profit (per total sales (ROS)) compared to the early period of the COVID-19 pandemic?	
		<i>Definition:</i> Subjective assessment regarding business continuity and recovery of MSME businesses from the actors’ perspective during the COVID-19 pandemic crisis.	
Survival-Recovery of SMEs (SRS)	SRS1	I was able to sustain my business during the COVID-19 pandemic crisis.	[8]
	SRS2	I can recover my business after being affected (directly and indirectly) by the COVID-19 pandemic.	
	SRS3	My business has developed gradually after being affected (directly and indirectly) by the COVID-19 pandemic.	

Table 2 demonstrates that each indicator item analyzed in this study exhibits a loading factor value exceeding 0.70, signifying that all indicators accurately reflect the construct.

Table 2 illustrates that the comprehensive reliability (CR) and composite reliability (CA) values for every latent variable examined in this investigation exceeded 0.70. Each latent variable in this study exhibited an AVE value greater than 0.50. The ratio above values suggests that the

instrument constructed from this study’s latent variables and indicators demonstrates reliability and validity.

The Heterotrait-Monotrait (HTMT) coefficient is a statistical measure utilized to assess the discriminant validity of a given research instrument. The work [21] have posited that using the HTMT ratio is a more precise approach to evaluate discriminant validity in PLS-SEM analysis. The HTMT ratio mustn’t exceed 0.90 to establish the instrument’s validity.

Table 3 illustrates that the HTMT ratio values for each latent variable are less than 0.90, indicating that the research instrument is valid for assessing the constructed model.

The purpose of assessing the inner or structural model is to evaluate the concep-

tual model’s predictive capacity concerning the independent variable’s variance. Thus, four measurement analyses were conducted. The R-square ( $R^2$ ) value determines the coefficient of determination.

The objective is to ascertain the significance level of the collective impact of

Table 2

**Convergent Validity and Reliability Test Result**

Variable	Item	Factor Loading	Cronbach’s Alpha	Composite Reliability	Average Variance Extracted
Tax Incentive Policy (TIP)	TIP1	0.826	0.899	0.925	0.713
	TIP2	0.899			
	TIP3	0.861			
	TIP4	0.833			
	TIP5	0.800			
Perceived Policy Effectiveness (PPE)	PPE1	0.766	0.852	0.899	0.692
	PPE2	0.881			
	PPE3	0.820			
	PPE4	0.855			
Sustainable Financial Performance (SFP)	SFP1	0.899	0.873	0.922	0.797
	SFP2	0.906			
	SFP3	0.873			
Survival-Recovery of SMEs (SRS)	SRS1	0.770	0.809	0.883	0.717
	SRS2	0.884			
	SRS3	0.881			
Technology Adaptation (TA)	TA1	0.888	0.897	0.923	0.706
	TA2	0.878			
	TA3	0.879			
	TA4	0.841			
	TA5	0.699			
Innovative Financial Practice (IFP)	IFP1	0.846	0.780	0.858	0.610
	IFP2	0.828			
	IFP3	0.724			
	IFP4	0.873			

Table 3

**Discriminant Validity (HTMT Ratio)**

	IFP	PPE	PPE*TIP	SFP	SRS	TA
Innovative Financial Practice (IFP)						
Perceived Policy Effectiveness (PPE)	0.208					
Moderating Variable (PPE*TIP)	0.066	0.035				
Sustainable Financial Performance (SFP)	0.294	0.297	0.022			
Survival-Recovery of SMEs (SRS)	0.265	0.160	0.123	0.359		
Technology Adaptation (TA)	0.862	0.282	0.021	0.226	0.128	
Tax Incentive Policy (TIP)	0.162	0.348	0.189	0.140	0.125	0.216

exogenous factors on endogenous factors. Subsequently, the statistical significance of the direct and indirect path coefficients was evaluated by applying the bootstrap technique utilizing a subsample of 5000. The examination assesses the t-statistical value or p-value, requiring a value less than 0.1 to establish a statistically significant relationship between the latent variables. During this phase, the hypotheses in the study are tested per the research methodology outlined by [22].

Subsequently, a Goodness of Fit analysis is conducted to verify the soundness of the overarching structural model and assess the collective efficacy of both the measurement and structural models. The present study analyzed the SRMR, NFI, and Chi-Square ratios to determine their respective values. The study conducted a predictive analysis of relevance using the blindfolding method, which was based on cross-validated redundancy as outlined by [22]. Sarstedt, and Straub in 2012, the purpose of this paper is to review and analyze the use of partial least squares structural equation modeling (PLS-SEM).

#### 4. Results

Table 4 contains comprehensive profiles of the companies of the participants. Most of the SMEs that participated in the study were classified as micro-enterprises. According to the Law on SMEs in Indonesia, micro-enterprises are characterized by having a workforce of one to five employees, a maximum yearly income of US\$19,200, and a business asset value not exceeding US\$3,200. The data analysis indicates that most participants, precisely 71.05%, reported having a workforce size ranging from 1 to 5 employees. Additionally, 52.53% of the respondents reported possessing company assets of less than US\$3,200, while 70.9% reported annual revenue of no more than US\$19,200. The statement accurately reflects the prevailing reality in Indonesia, wherein a significant proportion of businesses (98.70%) are comprised of micro-enterprises, amounting to over 62 million.

Most enterprises, precisely 90.06%, are held by individuals and families. Corporations (CV) and limited liability companies (PT/Ltd) are subsequent entities. Regarding the duration of operation,

Table 4

#### Business Profile of Respondents

Business Profile	Frequency	Percentage (%)	Business Profile	Frequency	Percentage (%)
<i>Education</i>			<i>Number of Employees</i>		
Elementary School	97	9.45%	1–5	729	71.05%
Junior High School	127	12.38%	5–19	236	23.00%
Senior High School	576	56.14%	20–99	51	4.97%
Bachelor	206	20.08%	>99	10	0.97%
Master/Ph.D.	20	1.95%	<i>Ownership</i>		
<i>Annual Revenue (USD)</i>			Individual/family	924	90.06%
3,900–19,200	789	76.90%	CV	64	6.24%
19,200–160,000	195	19.01%	PT/Corporate	38	3.70%
160,000–3,200,000	42	4.09%	<i>Age of Business</i>		
<i>Total Asset (USD)</i>			<10 years	589	57.41%
3,200 maximums	539	52.53%	10–15 years	249	24.27%
3,200–32,000	392	38.21%	15–20 years	92	8.97%
32,000–640,000	95	9.26%	>20 years	96	9.36%

most participants (57.41%) have been in business for a maximum of ten years. Approximately 24.27% of the entities under consideration have been in operation for a duration spanning between 10 to 15 years. The survey results indicate that 8.97% and 9.36% of the participants have reported engaging in business activities for 20 years or more. The data suggests that many business proprietors possess a bachelor's degree or higher (20.08%). It is trailed by those who hold an associate's degree (12.38%), followed by individuals with a high school diploma (9.45%), and lastly, those who have attained a master's degree or beyond (1.95%).

#### 4.1. PLS-SEM Prerequisites

At a minimum, two conditions must be satisfied as prerequisites for conducting a PLS-SEM analysis. [20] stated that missing values and outlier data must be ensured to perform the PLS-SEM test. The study yielded a total of 1558 completed questionnaires, out of which 532 responses were found to have missing answers. Upon completing the screening process, this study's ultimate sample size amounted to 1026 participants. This study employed a sample size of 1026, following the recommendation of [23], which stipulates that the number of samples suitable for data analysis using the SEM-PLS approach should be 5–10 times greater than the number of indicators. This study comprises 24 indicators, necessitating a minimum sample size of 240. Thus, the study's sample size satisfies the requirements.

The PLS-SEM approach necessitates the assumption of free multicollinearity among the variables construct. The fulfillment of this criterion may be achieved by evaluating the internal VIF value via the employment of the PLS technique. According to [23], multicollinearity among indicators can be inferred if the Variance Inflation Factor (VIF) value exceeds 3.

Table 5 demonstrates that the inner VIF value among variables and indicators is below 3. Thus, the present research deduces that there exists no assumption of multicollinearity.

Table 5

#### Inner VIF Results (Common Method Bias Test)

	Sustainable Financial Performance	Survival-Recovery of SMEs
Innovative Financial Practice		2.089
Perceived Policy Effectiveness	1.097	
Moderating Variable (PPE*SFP)	1.037	
Sustainable Financial Performance		1.074
Technology Adaptation		2.089
Tax Incentive Policy	1.135	1.047

According to [23], conducting a model fit assessment is imperative to evaluate the collective efficacy of both the outer and structural model/inner model. According to [24], the SMARTPLS website specifies specific criteria for determining the suitability of a model. Specifically, a model can be considered appropriate if it satisfies the condition that the Theta RMS (Root Mean Square) value is less than 0.102, the SRMR (Standardized Root Mean Square) value is less than 0.10 or 0.08, or the NFI value is more significant than 0.9 or close to 1.

Table 6 displays that the NFI value of the estimated model is 0.860, indicating a high level of goodness of fit, and the SRMR value is 0.061, below the recommended threshold of 0.10. The study's findings suggest that the model created in the research satisfied the Goodness of Fit (GoF) assumption.

Table 6

#### The Goodness of Fit Test Result

	Saturated Model	Estimated Model
SRMR	0.051	0.061
d_ULS	0.765	1.111
d_G	0.305	0.308
Chi-Square	1923.802	1919.576
NFI	0.860	0.860

**4.2. Structural (Inner) Model**

The initial step in the structural model analysis involves the computation of the coefficient of determination. The R-square ( $R^2$ ) value acquired from the PLS algorithm steps determines this test. According to [23], the  $R^2$  ratio level can be categorized into three distinct levels, which are strong (0.75), moderate (0.50), and weak (0.25).

According to Table 7, the  $R^2$  value for the survival-recovery of SMEs is 0.134. Meanwhile, sustainable financial performance has a value of 0.070.

Table 7

**Determination Coefficient Test Results**

	R Square	R Square Adjusted
Sustainable Financial Performance	0.072	0.070
Survival-Recovery of SMEs	0.137	0.134

The tax incentive policy exhibits a limited explanatory power of up to 14% towards the three endogenous variables (SRS), with the remaining proportion being accounted for by exogenous variables not included in the model. It's caused the research to be limited in scope as it solely concentrates on examining a single government policy variable. This variable is a crucial determinant in the sustainability and recovery of SMEs, thereby enhancing the quality of academic discourse.

The subsequent phase of the inner model assessment involves the evaluation of the outcomes obtained from the blindfolding ratio. The Blindfolding test

is utilized to assess the  $Q^2$  value, indicating a construct model's predictive validity [23]. If the value of  $Q^2$  exceeds 0.05, it can be inferred that the model developed in this investigation is suitable for elucidating the phenomenon.

According to Table 8, the  $Q^2$  values of the two endogenous variables (SFP and SRS) in this investigation exceeded 0.05 (0.055 and 0.089). The appropriateness of the exogenous variables employed for predicting the endogenous variables in this study can be inferred.

**4.3. Hypothesis Testing Result**

The inner model analysis procedure's final stage involves verifying hypotheses via the bootstrapping technique. To evaluate the degree of relevance of the structural model, scholars employed 5,000 sub-samples to ascertain the level of data stability, as [23] reported. The present investigation uses a significance level ranging from 5% to 10%. It denotes the commonly acknowledged threshold of significance in economics and management studies.

Table 9 displays the results indicating a positive correlation among latent variables. The findings from the bootstrapping analysis indicate that tax incentive policies have a statistically significant and positive impact on sustainable financial performance. Tax incentive policies directly and significantly impact the survival-recovery of SMEs. Furthermore, tax incentive policies have a direct and significant positive impact on sustainable financial performance.

Table 8

**Blindfolding Test Result**

	SSO	SSE	$Q^2 (= 1 - SSE / SSO)$
Innovative Financial Practice	4104	4104	
Perceived Policy Effectiveness	4104	4104	
Moderating Variable (PPE*SFP)	1026	1026	
Sustainable Financial Performance	3078	2909.699	<b>0.055</b>
Survival-Recovery SMEs	3078	2805.408	<b>0.089</b>
Technology Adaptation	5130	5130	
Tax Incentive Policy	5130	5130	

Table 9 illustrates that the perceived policy effectiveness plays a constructive and statistically significant role in moderating the correlation between tax incentive policies and the sustainable financial performance of SMEs. The present study’s results indicate the manifestation of “Quasi Moderation” as the type of moderating effect. The reason for this is that the perceived policy effectiveness has a direct and substantial impact on sustainable financial performance, and it exhibits a strong correlation with tax incentive policies (PPE\*TIP), which also significantly influence the survival-recovery of SMEs. As per [25]’s assertion, the above state is commonly denoted as quasi-moderation.

The graphical representation depicted in Figure 3 illustrates the interplay between the moderating factor of perceived policy effectiveness, marked as PPE\*TIP. The present simple slope analysis indicates that SMEs who perceive the effectiveness of implementing tax incentive policies as excellent are more likely to sustain financial performance during the pandemic. Meanwhile, SMEs that perceive neutral or less efficacy of tax incentives are less likely to sustain their financial performance amidst the pandemic.

The figure shows that the level of effectiveness of the green line moderating effect (evident from the degree of slope) is considerably higher than that of the red

Table 9

Direct Effect Test Result

Hypothesis	Path	Coefficient	Standard Deviation	T Statistic	P-Value	Decision
H1	TIP → SFP	0.059	0.036	1.655	0.098	Supported*
H2	TIP → SRS	0.063	0.036	1.733	0.083	Supported*
H3a	SFP → SRS	0.275	0.033	8.433	0.000	Supported**
H4	<b>Moderating Effect (PPE*TIP → SFP)</b>	0.060	0.036	1.665	0.094	Supported*
	PPE → SFP	0.245	0.034	7.180	0.000	
	TA → SRS	0.122	0.044	2.751	0.006	
	IFP → SRS	0.248	0.045	5.542	0.000	

Note: \*\* Significant in 5% error \*Significant in 10% error

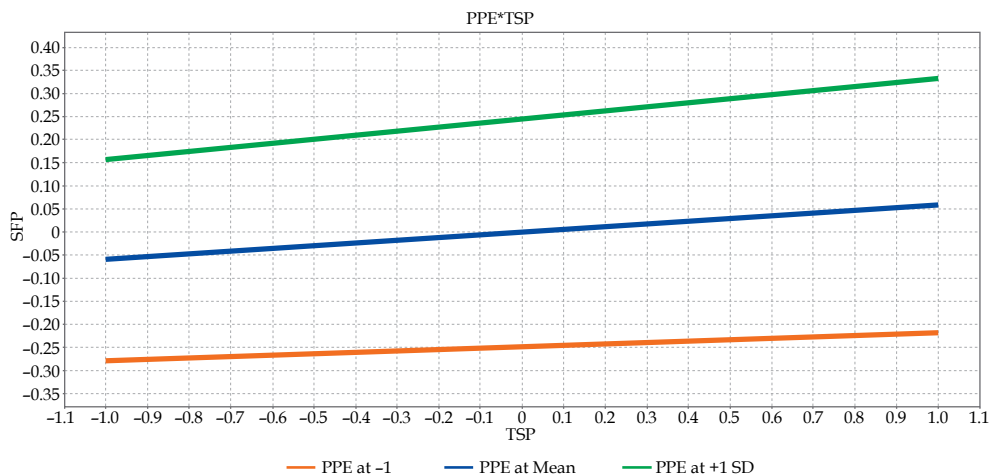


Figure 3. Results of Simple Slope Analysis for Moderating Variables

Note: PPE = Perceived Policy Effectiveness, TSP = Tax Incentive Policy, SFP = Sustainable Financial Performance

or blue line moderation effect. However, overall, the impact of tax incentive policies on the sustainable financial performance of SMEs is always positively and significantly moderated, regardless of whether the policies are highly effective, neutral, or less effective. Thus, it can be inferred that hypothesis H4 is supported.

Table 9 demonstrates that the prerequisites for the mediation association in this framework have been met. According to [25], for a mediator (intervening) variable to effectively mediate an effect, the independent variable must impact the mediator variable, and the mediator variable must simultaneously affect the dependent variable. The findings above indicate a statistically significant association between all latent variables in a direct manner, specifically from TIP to SFP to SRS.

Thus, there is a high likelihood that the SFP variable serves as a mediator for the TIP variable with the SRS. Examining the outcomes of indirect influences is necessary to demonstrate this assertion. The findings conclude that hypotheses H1, H2, H3a, and H4 have been supported, while H0 has been refuted.

Table 10 displays the correlation between latent variables in an indirect manner.

Table 10 demonstrates that sustainable financial performance is the mediating factor between tax incentive policies and the continuity and recovery of SMEs. The acceptance of H3b and the rejection of H0 can be inferred.

**5. Discussion**

The present study provides theoretical support for prior research conducted by [8; 19; 26]. These studies have demonstrated that tax policy has emerged as a crucial exit strategy for governments in the ASEAN region to safeguard business actors during the COVID-19 pandemic

crisis. The policy above offers significant advantages to SMEs in effectively overseeing and preserving their existing assets, thereby enhancing productivity during adversity.

Utilizing existing resources, particularly cash flow, is crucial in improving business performance and sustaining profitability and financial well-being, as [27] and [28] noted.

Conversely, the present study refutes the conclusions drawn by [29] based on their qualitative research, suggesting that the employment of tax incentives by MSMEs in Indonesia is feeble due to inadequate implementation.

The present discovery possesses enhanced validation as it employs a survey research method based on quantitative analysis. The present study aligns with the research conducted by [28], which demonstrated that implementing tax incentives can lead to a growth of 2.38% in China’s economy.

Furthermore, the study has also revealed that the secondary and tertiary industries witness more significant growth in export and import activities when tax incentives are provided compared to the scenario where no such incentives are given. Based on the findings of [28]’s study, it can be inferred that the favorable economic expansion can be attributed, at least in part, to the actions of SMEs that capitalize on tax incentives to sustain their financial stability amidst a pandemic.

Reducing tax collection or other associated costs can lead to a decrease in overall business expenditures. The pandemic has highlighted the collaborative efforts between the state, consumers, and business people by implementing bill exemptions, fine reductions, and tax installment adjustments. Implementing this policy may result in a short-term decrease

Table10

**Indirect Relationship Test Results**

Hypothesis	Path	Coefficient	Standard Deviation	T Statistic	P-Value	Decision
H3b	TIP → SFP → SRS	0.064	0.01	1.731	0.083	Supported*

Note: \*\* Significant in 5% error \*Significant in 10% error.



in State revenue through taxation. However, over the long term, it may lead to an increase in tax collection and the creation of employment opportunities as companies undergo rehabilitation during the crisis period. This assertion is supported by the findings of [8; 19; 26].

The study demonstrates that policy effectiveness plays a significant role in achieving policy objectives. Implementing efficacious incentives facilitates the accessibility of tax assistance for SME stakeholders, thereby culminating in achieving sustainable financial performance for SMEs.

The research findings are a practical impetus for the government, particularly the Directorate General of Taxes and Customs and Excise, to continue educating SME taxpayers. It will enable them to leverage tax incentives during periods of crisis effectively.

According to [30; 31], the Indonesian Ministry of Finance data indicates that a mere 3.4% or 200 thousand SME taxpayers avail themselves of tax incentives out of 2.3 million. The greater the number of SMEs that help themselves with tax incentives, the higher the likelihood of survival amidst a pandemic crisis. The government should enhance the efficacy of tax incentive provision implementation as it significantly impacts the approach and triumph of SMEs in availing themselves of this support.

## **6. Conclusion**

Tax incentives represent an essential fiscal tool that plays a crucial role in supporting the survival of SMEs in Indonesia amidst the financial crisis triggered by the COVID-19 pandemic.

The present study has effectively addressed the inquiry regarding the integrity of the proposition that the government's implementation of a proficient tax incentive policy facilitates the sustenance of the financial performance of SMEs, thereby ensuring their viability and profitability and enabling them to recuperate and uphold their business continuity in the face of the pandemic crisis.

The investigation results indicate that tax incentive measures directly and fa-

vorably impact the sustainable financial performance of SMEs. It is evidenced by the positive return on assets (ROA), return on equity (ROE), and return on sales (ROS) observed during the pandemic. Tax incentives positively impact business continuity and recovery, directly and indirectly, by facilitating sustainable financial performance. The financial performance of SMEs is positively affected by tax incentives, particularly when SMEs' perceived effectiveness of policies moderates such incentives.

The optimal execution of tax incentive measures yields significant advantages in supporting the financial stability of SMEs amidst the COVID-19 crisis. Based on the findings and conclusions above and the findings from previous research, the authors summarize several policy recommendations for the government, including:

1. Expanding the methods and scale of outreach and education of tax incentive programs for SMEs, facilitating SME tax payments, and exempting tax payments during a pandemic.

2. Increasing the effectiveness of distributing incentives for SMEs. It has been proven to increase the chances for SMEs to receive tax incentives from the government.

3. Maintaining the SME incentive program in times of future crises. It is proven to help SMEs maintain financial performance and recover gradually from the crisis because they can manage cash flow or current assets.

Despite achieving the research objectives and goals, further efforts are required to address certain study limitations. Initially, it should be noted that the analysis solely focused on a singular type of government financial policy, namely the preferential policies implemented by the bank. Subsequent research endeavors may explore further prospects for deliberations on future studies, encompassing diverse financial matters such as tax exemption, social insurance policies, and the involvement of small and medium-sized enterprise professional associations.

Moreover, many extrinsic factors, such as the impact of external stakeholders, encompassing clientele, vendors, stockholders, and proprietors, have gone unnoticed. Further examination is required to determine how these parties can employ comprehensive analytical approaches to mitigate the impact of the pandemic crisis on small and medium-sized enterprises (SMEs).

Subsequent investigations may also examine the contributions of employees and executives in the realm of administration and their facilitation of the enterprise's adaptation towards resilience amidst the ongoing pandemic. The above-mentioned factors will be perceptible in the forthcoming period, presenting intriguing research opportunities.

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