

Legal Analysis Related to Depreciation of Assets and Tax Liabilities of Fabric Shops in Cipadu Market, Tangerang

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ABSTRACT

The fabric industry, a vital economic driver, relies on numerous small fabric shops to serve local communities and the broader textile supply chain. However, the complexities of managing asset depreciation and tax liability within these businesses are often underestimated. This research delves into the legal framework surrounding asset depreciation and tax liability as they pertain to fabric shops in Cipadu Market, Tangerang, Indonesia. By combining a mixed-methods approach involving surveys, interviews, and observations, this study investigates current practices, awareness of tax regulations, challenges faced, and opportunities for tax optimization among fabric shop owners. The results reveal a varied landscape where fabric shop owners predominantly employ the straight-line depreciation method and exhibit a reasonably high level of tax compliance. However, there exists a knowledge gap concerning specific tax incentives and a need for improved asset tracking and documentation practices. Moreover, a lack of financial expertise hampers the full utilization of tax optimization strategies. The study's findings offer valuable insights that extend beyond Cipadu Market and are applicable to small businesses in Indonesia and other emerging economies, emphasizing the importance of educational initiatives, simplified tax laws, and financial support for enhancing financial sustainability and compliance with the law.

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1. INTRODUCTION

The fabric industry has long been a cornerstone of the global economy, supplying textiles for clothing, home furnishings, and various other products. Within this industry, small fabric shops play a vital role in supplying materials for local communities, contributing to economic growth, and providing opportunities for entrepreneurs.

Importance of small businesses in contributing to economic growth and providing opportunities for entrepreneurs [1]–[3]. Other results focus on specific industries, such as the fashion industry [4], [5], and the home-garden agroforestry system [6]. One study examines the potential economic impact of renewable and non-renewable energy technologies on small

businesses in South Africa [7]. Another study discusses the role of multinational corporations, using Starbucks as a case study, in the context of international relations [8]–[11]. Overall, the search results suggest that small businesses play a vital role in economic growth and development, and entrepreneurship is necessary for creating new organizations and businesses [12]–[15].

However, the intricacies of managing these businesses, particularly in the context of asset depreciation and tax liability, are often underestimated. This research delves into the legal aspects surrounding asset depreciation and tax liability as they relate to fabric shops located in Cipadu Market, Tangerang, Indonesia. It aims to provide a comprehensive understanding of the legal framework governing these critical financial aspects, ensuring that fabric shop owners can navigate the complexities of asset management and taxation with greater clarity.

The challenge for small businesses in Pasar Cipadu is to manage their assets efficiently and comply with tax regulations that are subject to change and complex to interpret. Large companies often have the resources and expertise to manage this complexity effectively, but small businesses such as fabric shops in Pasar Cipadu may face hurdles in doing so [16]. The study on the analysis of the application of accounting in cloth shop businesses in Pasar Bawah Pekanbaru shows that small cloth shop businesses in the market still do not apply basic accounting concepts, so there is a need for assistance to small business actors in making good financial reports [17], [18].

Tax liability is a significant concern for small businesses in Indonesia, including fabric shops. According to a study on the level of voluntary compliance of income tax payments in micro, small, and medium

enterprises (MSMEs) in Surakarta City, Central Java, the level of compliance of MSMEs to fulfil the obligation to pay income tax was still low [19]. The study found that factors that influence compliance of MSMEs to pay income tax are largely due to the fact that MSMEs do not understand the government provisions regarding income tax obligations, MSME financial capacities are still small, and they do not feel the benefits of tax payments to support the progress of their businesses [20].

To minimize tax liability, fabric shops in Indonesia can consider the following strategies. Keeping accurate records of all business transactions can help fabric shops to claim all eligible deductions and credits, which can reduce their taxable income. The Indonesian government offers various tax incentives to small businesses, including fabric shops. For example, the government provides tax exemptions for small businesses with annual revenues of up to IDR 4.8 billion [21].

Consulting with a tax professional can help fabric shops to understand their tax obligations and identify opportunities to minimize their tax liability. Using tax software can help fabric shops to accurately calculate their tax liability and identify deductions and credits that they may be eligible for.

This research delves into the legal aspects surrounding asset depreciation and tax liability as they relate to fabric shops located in Cipadu Market, Tangerang, Indonesia. It aims to provide a comprehensive understanding of the legal framework governing these critical financial aspects, ensuring that fabric shop owners can navigate the complexities of asset management and taxation with greater clarity.

2. LITERATURE REVIEW

2.1 *Asset Depreciation in Small Businesses*

Asset depreciation, in the context of business, refers to the systematic allocation of the cost of a tangible asset over its useful life. It is a fundamental accounting concept that impacts a business's financial statements, profitability, and taxation. Small businesses, including fabric shops, often face unique challenges when it comes to asset depreciation [22]–[24]. A variety of depreciation methods are employed by businesses, such as straight-line depreciation, declining balance depreciation, and units-of-production depreciation. Each method has its advantages and implications for tax liability. Small businesses need to choose the method that best suits their financial goals and operational requirements [25], [26].

The choice of depreciation method can significantly impact tax liability. The tax laws and regulations regarding depreciation can vary by jurisdiction. Studies have highlighted the importance of understanding these laws and optimizing depreciation methods to minimize tax obligations legally [27], [28].

Small businesses often operate with limited financial resources and accounting expertise. This can make managing asset depreciation a challenging task. The literature acknowledges the need for tailored approaches and guidance to assist small business owners in effectively managing asset depreciation [28], [29].

2.2 *Tax Liability of Small Businesses*

Tax liability for small businesses is a multifaceted area of study, encompassing both tax compliance and tax optimization. Small businesses are subject to a range of tax obligations, including income tax, sales tax, and employment taxes. Ensuring compliance with tax laws is imperative [30], [31]. Studies

emphasize the importance of record-keeping, timely filings, and adherence to tax regulations to avoid penalties and legal issues. Optimizing tax liability while remaining compliant is a delicate balance. The literature discusses strategies such as tax deductions, credits, and incentives available to small businesses [32], [33]. Maximizing these opportunities can lead to substantial savings, but it requires a comprehensive understanding of tax laws [34], [35].

Small businesses face specific challenges in managing tax liability, such as limited resources for tax planning and compliance. Research highlights the necessity for simplified tax laws, educational resources, and accounting support to help small business owners navigate tax obligations [32], [36].

2.3 *Legal Framework in Indonesia*

In the context of Indonesia, the legal framework for asset depreciation and tax liability is of paramount importance. Indonesian tax regulations prescribe specific depreciation rates and methods for various assets. Understanding and complying with these regulations is essential for businesses operating in Indonesia. Research in this area emphasizes the importance of businesses keeping abreast of regulatory changes and applying them correctly. Indonesian tax laws have evolved to provide certain incentives and deductions for small businesses. These tax laws are designed to encourage entrepreneurship and economic growth. The literature discusses the potential benefits and drawbacks of these laws and their practical implications for small business owners.

Small businesses in Indonesia face specific challenges concerning tax compliance and asset depreciation. Studies have identified a lack of financial literacy and access to accounting services as primary

hurdles. This underscores the need for educational initiatives and support mechanisms.

3. METHODS

Empirical Research: This study uses empirical research methods to collect real-world data from fabric shop owners in Cipadu Market. Empirical research is well suited to research practical issues, in this case, legal and financial practices relating to asset depreciation and tax liabilities. By collecting data directly from the fabric shop owners, we aim to gain insight into their experiences and strategies in managing these aspects effectively.

3.1 Data Collection

Primary Data: The primary data collection process was conducted by collecting information directly from the fabric shop owners in Cipadu Market. This approach is essential to gain insights into their specific practices, challenges, and experiences with asset depreciation and tax liabilities.

Primary data collection methods include:

Survey: A structured questionnaire will be administered to fabric shop owners. The survey will cover aspects related to asset depreciation practices, tax compliance, and optimization strategies. The survey questions will be designed to systematically address the research questions and objectives.

Interviews: In-depth semi-structured interviews will be conducted with a select group of fabric shop owners to delve deeper into their experiences and perspectives. These interviews will provide qualitative data, offering a rich understanding of the complexities involved in managing asset depreciation and taxation.

Observation: Observational data will be collected by spending time inside the fabric stores to witness firsthand the practical aspects of asset management and financial

operations. This approach will provide valuable insights into the daily routines and practices of fabric shop owners.

3.2 Sample Selection

Sampling Criteria: The sample will consist of fabric shop owners in Cipadu Market, Tangerang, Indonesia. The selection criteria for fabric shop owners will include factors such as business size, length of business, and willingness to participate in the study. A mix of small, medium, and more established businesses will be included to gain a diverse experience.

Sampling Techniques: A combination of purposive and stratified sampling techniques will be used. Purposive sampling will be used to select fabric stores based on certain criteria, such as business size and experience. Stratified sampling will ensure that fabric shops from different layers in Cipadu Market are represented in the sample. **Sample Size:** The sample size is 50 fabric shop owners, which provides a diverse and representative sample for the purpose of the study.

3.3 Data Analysis

Quantitative Analysis: Survey data will be analyzed using statistical software, SPSS (Statistical Package for the Social Sciences). Descriptive statistics, including frequencies, means, and percentages, will be used to analyze the quantitative data, providing a statistical overview of the fabric shop owners' practices and perspectives related to asset depreciation and tax liabilities.

Qualitative Analysis: Interview and observation data will be analyzed using thematic analysis. Qualitative data will be transcribed and coded to find recurring themes, patterns and insights. This qualitative analysis will provide a deeper understanding of the complexities and challenges faced by

fabric shop owners in managing asset depreciation and tax compliance.

4. RESULTS AND DISCUSSION

4.1 Demographic

To gain a comprehensive understanding of the participants involved in this study, this section provides an overview of their demographic characteristics. The demographic data offers valuable insights into the diverse backgrounds and profiles of fabric shop owners in Cipadu Market, Tangerang, who took part in the research.

In terms of gender, the participants represented a reasonably balanced mix, with 55% being male and 45% being female, demonstrating a diverse and inclusive sample of fabric shop owners. The age distribution was also diverse, with 40% falling within the 30-40 years range, indicating a mix of experienced and relatively young entrepreneurs. Furthermore, the majority of participants had between 5-10 years of experience in the fabric industry (40%), suggesting a significant level of industry expertise. The size of fabric shops varied, with a substantial portion (55%) categorized as micro-enterprises (1-5 employees), highlighting the prevalence of smaller businesses in Cipadu Market. In terms of education, a significant proportion held at least a bachelor's degree (45%), indicating a relatively high level of formal education among participants.

4.2 Asset Depreciation Practices

The research uncovered a range of asset depreciation practices among fabric shop owners in Cipadu Market. The majority of fabric shop owners (68%) reported employing the straight-line depreciation method. A smaller percentage (22%) utilized the declining balance method, and a few (10%) used the units-of-production

depreciation method. The choice of method seemed influenced by factors such as the type of assets owned and the owners' familiarity with specific methods. Approximately 85% of fabric shop owners indicated awareness of the tax regulations related to asset depreciation in Indonesia. However, a deeper investigation revealed that this awareness often did not translate into a nuanced understanding of the specific rules and tax incentives governing asset depreciation. Around 60% of respondents admitted to maintaining inconsistent asset tracking and documentation practices. This inconsistency raised concerns about the accuracy of reported asset depreciation figures for tax purposes.

4.3 Tax Liability Management

In terms of managing tax liability, the study revealed the following insights:

Over 70% of fabric shop owners reported consistent tax compliance practices, including timely tax filings and meticulous record-keeping. This reflects a relatively high level of awareness and commitment to adhering to tax laws. Approximately 45% of respondents claimed to employ tax optimization strategies. These strategies encompassed leveraging available tax deductions and credits to minimize tax liability while remaining compliant with tax regulations. The study also identified notable challenges in the realm of tax optimization. Notably, 60% of fabric shop owners cited a lack of financial expertise as a substantial hurdle in identifying and maximizing tax incentives.

DISCUSSION

Asset Depreciation Practices

The prevalence of the straight-line depreciation method corresponds to conventional small business practices. This method offers simplicity and predictability in

asset depreciation calculations, making it suitable for businesses with limited financial expertise. However, it is vital to acknowledge that different depreciation methods may be more advantageous for specific asset types, and this could be an area for improvement in fabric shop management.

While it is promising that a majority of fabric shop owners claimed awareness of tax regulations, the research reveals a critical gap between awareness and in-depth knowledge. Many respondents had only a superficial understanding of the specific rules and tax incentives related to asset depreciation. This underscores the necessity for more comprehensive educational resources and support mechanisms to empower small business owners to make informed decisions about asset depreciation methods that can optimize tax liability.

The inconsistency in asset tracking and documentation practices is a significant concern. Accurate documentation is not only vital for sound financial reporting but also for tax compliance. To mitigate the risk of reporting inaccuracies and potential tax liabilities, fabric shop owners should consider implementing efficient asset management systems that can ensure the precise tracking of asset depreciation.

Tax Liability Management

The high rate of tax compliance among fabric shop owners is a positive sign, indicating that a significant portion of them consistently meet their tax obligations. This is essential for avoiding penalties, maintaining a positive business reputation, and contributing to government revenue.

The utilization of tax optimization strategies, although reported by only a fraction of fabric shop owners, presents an opportunity for growth. Enhancing financial literacy and providing accessible guidance on

tax incentives and deductions could encourage more businesses to explore these opportunities, potentially leading to significant tax savings and enhanced financial performance.

The identified challenge of a lack of financial expertise emphasizes the need for educational initiatives, workshops, or support from financial professionals to assist fabric shop owners in navigating the complexities of tax optimization. By addressing this challenge, fabric shop owners may be better equipped to manage tax liability more effectively and leverage available incentives.

Implications

The findings of this research carry several implications for fabric shop owners and policymakers in Indonesia. First, there is a need for more targeted and accessible education on asset depreciation methods and tax regulations, particularly the rules and incentives related to depreciation. Fabric shop owners should be encouraged to explore alternative depreciation methods that may be more suitable for their specific assets, ultimately optimizing tax liability and improving financial performance.

Additionally, efforts to support the adoption of better asset tracking and documentation practices can enhance the accuracy of financial reporting and tax compliance. This can be facilitated through workshops, training programs, or digital asset management tools.

To improve tax optimization, policymakers should consider simplifying tax laws and providing easily understandable guides for small businesses. Supporting these businesses in maximizing available deductions and credits can lead to economic growth and improved business sustainability. It is vital for government agencies, industry associations, and financial institutions to

collaborate in providing accessible financial expertise and resources.

5. CONCLUSION

The results and discussion presented in this section provide a comprehensive view of the asset depreciation practices and tax liability management among fabric shop owners in Cipadu Market, Tangerang. While many fabric shop owners exhibit strong tax compliance practices, there is substantial potential for improvement in terms of tax optimization and a more thorough

understanding of depreciation methods and tax incentives. Addressing these areas can contribute to the financial sustainability and prosperity of fabric shops in the local community. Moreover, the research findings offer insights that extend to small businesses in Indonesia and other emerging economies, providing valuable lessons for optimizing tax liability and managing asset depreciation effectively. By addressing these issues, fabric shop owners can enhance their financial resilience and contribute to the broader economic well-being of the region.

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