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Compliant Discomfort: An Autoethnography Of Vat Friction In A Labour-Intensive Small Service Firm

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ABSTRAK

Studi ini meneliti bagaimana formalisasi pajak pertambahan nilai (PPN) dialami oleh sebuah perusahaan jasa sanitasi dan pengolahan air limbah skala kecil yang padat karya di Indonesia. Perusahaan tersebut menjadi wirausahawan kena pajak sebagai bagian dari strategi sadar untuk memasuki pasar korporat, di mana penawaran harga, pesanan pembelian, faktur, faktur PPN, dan dokumentasi kepatuhan pajak diperlukan. Dengan menggunakan autoetnografi analitik, studi ini mengacu pada peran penulis sebagai pendukung pajak yang dekat dengan pihak dalam, refleksi praktisi, episode administratif anonim, dan interaksi dukungan pajak yang berulang. Temuan menunjukkan bahwa gesekan PPN tidak muncul dari penolakan untuk mematuhi. Perusahaan membayar dan melaporkan tepat waktu, namun mengalami ketidaknyamanan karena outputnya sangat terlihat melalui faktur korporat sementara sebagian besar input ekonominya tetap kurang terlihat sebagai PPN masukan yang dapat dikreditkan. Tenaga kerja, pemeliharaan kendaraan, bahan bakar, tol, pembayaran terkait pembuangan, operasi lapangan, dan pembayaran korporat yang tertunda merupakan inti dari model bisnis, tetapi menghasilkan kredit PPN masukan yang terbatas. Studi ini memperkenalkan konsep kesenjangan visibilitas input dan menghubungkannya dengan ketidaknyamanan kepatuhan. Studi ini juga menunjukkan bahwa kepatuhan PPN dimediasi oleh pelanggan korporasi melalui waktu pembayaran, perlakuan pajak pemotongan, ekspektasi periode faktur, dan daya tawar. Studi ini berkontribusi pada literatur perpajakan UKM dengan mengalihkan perhatian dari kepatuhan versus ketidakpatuhan menuju pengalaman nyata perusahaan jasa kecil yang secara formal patuh di bawah PPN biasa.

Kata kunci: autoetnografi, PPN, perpajakan UKM, kesenjangan visibilitas input, jasa padat karya

ABSTRACT

This study examines how value-added tax (VAT) formalization is experienced by a small labour-intensive sanitation and wastewater service firm in Indonesia. The firm became a taxable entrepreneur as part of a conscious strategy to enter corporate markets, where quotations, purchase orders, invoices, VAT invoices, and tax-compliant documentation are required. Using analytic autoethnography, the study draws on the author's insider-adjacent tax-support role, practitioner reflection, anonymized administrative episodes, and recurring tax-support interactions. The findings show that VAT friction did not arise from refusal to comply. The firm paid and reported on time, yet experienced discomfort because its output was highly visible through corporate invoices while much of its economic input remained weakly visible as creditable input VAT. Labour, vehicle maintenance, fuel, tolls, disposal-related payments, field operations, and delayed corporate payments were central to the business model, but generated limited input VAT credits. The study introduces the concept of the input visibility gap and links it to compliant discomfort. It also shows that VAT compliance is mediated by corporate customers through payment timing, withholding-tax treatment, invoice-period expectations, and bargaining power. The study contributes to SME taxation literature by shifting attention from compliance versus non-compliance toward the lived experience of formally compliant small service firms under ordinary VAT.

Keywords: autoethnography, VAT, SME taxation, input visibility gap, labour-intensive services

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INTRODUCTION

For many small businesses, becoming a taxable entrepreneur is not simply a tax event. It is also a market decision. A small firm may accept value-added tax (VAT) obligations because corporate customers require formal invoices, purchase orders, and tax documentation. In this sense, VAT registration can become a ticket to a larger and more formal market. Yet the same ticket also brings monthly filing routines, output VAT, invoice-period discipline, withholding-tax coordination, and a level of administrative visibility that many small firms are not fully prepared to carry.

This tension is especially visible in labour-intensive service businesses. Unlike trading or manufacturing firms, whose inputs often appear through purchases of goods, materials, or inventory, service firms may rely heavily on labour, field work, fuel, vehicle maintenance, tolls, and operational coordination. These inputs are economically real, but they do not always appear as creditable input VAT. As a result, the firm may issue formal invoices and collect VAT from corporate customers, while having only limited input VAT to credit. VAT is legally designed as a tax collected along the value chain, but in practice it can be felt by small service firms as a pressure on cash and margin.

The case discussed in this study is a small but growing sanitation and wastewater service firm in Indonesia. The firm provides services commonly known as sedot WC, but its work extends beyond household septic-tank cleaning. It also includes maintenance and repair of wastewater and human-waste drainage systems for office buildings, factories, and other institutional clients. The firm was established in 2018 and became a taxable entrepreneur in 2022 as part of its move into a more formal customer base. Most of its revenue comes from corporate clients, often acquired through digital channels such as web visibility and Google advertising.

In this case, corporate documentation was not mainly a post-delivery request. It was embedded in the ordinary B2B procurement sequence. The firm typically submitted a quotation or proposal, received a purchase order from the customer, delivered the service, issued an invoice and VAT invoice, and then waited for payment according to the customer's internal payment schedule. The purchase order therefore signaled formal market access rather than administrative disruption. The friction emerged when this formal sequence was combined with long payment terms, withholding-tax treatment, VAT-inclusive price pressure, invoice-period issues, and occasional renegotiation after invoicing.

The firm's VAT problem did not come from an unwillingness to comply. Routine tax administration was handled by internal staff, with external tax-support assistance for monthly VAT returns, payroll withholding tax, and occasional Article 23 withholding-tax matters. VAT obligations were paid on time. The discomfort came from the structure of the business itself. Its output was highly visible through corporate invoices, purchase orders, VAT invoices, and tax returns. Its inputs, however, were much less visible within the VAT credit mechanism. Labour, fuel, vehicle maintenance, tolls, and field

operations were central to service delivery, but they generated little creditable input VAT. Regular input VAT came mainly from digital advertising, while other creditable inputs were occasional and not material.

Prior studies on SME taxation have long noted that small firms may bear high compliance burdens because many tax-administration activities are fixed in nature and do not decline proportionally with firm size (Hansford et al., 2003; OECD, 2015; Pope & Abdul-Jabbar, 2008). Studies on VAT also emphasize the logic of output tax and input tax credits as a central feature of VAT design (Bird & Gendron, 2007; Ebrill et al., 2001; OECD, 2017). However, less attention has been given to how VAT is experienced by a labour-intensive small service firm whose output is formal and visible, while its economic inputs do not generate material input VAT credits.

This study addresses that gap through analytic autoethnography. It does not ask whether the firm complied with VAT rules in a binary sense. It asks how compliance was experienced and why discomfort persisted inside compliance. The author writes from an insider-adjacent tax-support position: not as the firm's daily administrator and not as a formal tax consultant in a narrow professional sense, but as a senior reviewer and escalation point when routine tax administration encountered non-routine issues.

This study contributes to SME taxation literature in three ways. First, it introduces the concept of the input visibility gap to explain the distance between economic inputs that are necessary for service delivery and input VAT that is fiscally visible and creditable. Second, it develops the idea of compliant discomfort, showing that a small firm may pay and report on time while still experiencing VAT as poorly aligned with its cost structure and cash-flow reality. Third, it shows that VAT compliance is customer-mediated: corporate clients shape tax experience through procurement procedures, payment timing, withholding-tax treatment, invoice-period expectations, and bargaining power.

RESEARCH METHODS

Research Design

This study uses analytic autoethnography to examine how VAT formalization is experienced in a small labour-intensive service firm. Analytic autoethnography is appropriate because the study does not attempt to measure the statistical effect of VAT on firm performance. Instead, it seeks to understand how VAT is lived, interpreted, managed, and negotiated in a real small-business setting.

The study focuses on one sanitation and wastewater service firm in Indonesia. The firm provides services commonly known as sedot WC, but its activities are broader than household septic-tank cleaning. It also serves office buildings, factories, and institutional clients by providing wastewater drainage maintenance, repair, and related field services. The firm was established in 2018 and became a taxable entrepreneur in 2022 as part of its move into a more formal corporate market.

The unit of analysis is the experience of VAT formalization in the firm's daily and periodic tax administration. The analysis pays attention to how VAT registration enabled access to corporate customers, how output VAT became visible through formal invoices, how input VAT remained limited because of the firm's labour-intensive cost structure, and how customer relationships shaped tax-document friction.

Researcher Position

The author occupied an insider-adjacent tax-support position. The author was not the firm's daily tax administrator and did not act as a formal tax consultant in the narrow professional sense. Routine tax administration was handled primarily by the firm's internal administrative staff. Technical support was available from tax-support staff through informal coordination channels.

The author's role was closer to that of a senior reviewer, tax-support advisor, and escalation point. The author became involved in reviewing periodic tax filings, helping interpret non-routine document issues, and assisting the firm when ordinary administration encountered difficult VAT or withholding-tax problems. This position gave the author access to the practical experience of VAT compliance, including recurring monthly VAT discomfort, customer-related invoice disputes, withholding-tax questions, and exceptional tax-clarification episodes.

Because the author had a close social and advisory relationship with the firm, reflexivity is central to the method. The analysis does not claim detached neutrality. Instead, it uses the author's involvement as a source of insight, while keeping the empirical claims limited to the observed case and avoiding identification of the firm, customers, employees, or specific transactions.

Data Sources and Case Context

The data consist of practitioner memory, recurring tax-support interactions, anonymized administrative episodes, and reflective notes reconstructed from the author's involvement with the firm. The study does not rely on a formal interview protocol. Rather, it draws on repeated involvement in the firm's tax-support process over time.

The main empirical materials include recurring monthly VAT filing experiences; discussions with the owner, internal admin, and tax-support staff; administrative issues surrounding VAT invoices, replacement invoices, cancelled invoices, withholding-tax classification, and invoice-period disputes; observations on the firm's cost structure and limited input VAT; and one exceptional episode involving a mismatch between commercial documentation, withholding-tax evidence, and VAT records.

The firm operates in a labour-intensive service sector. Its work depends on field personnel, vehicles, fuel, equipment maintenance, tolls, disposal-related payments, coordination, and customer scheduling. Many of these costs are economically important but generate little or no creditable input

VAT. Routine input VAT mainly arises from digital advertising expenditure, while other potentially creditable inputs, such as testing or laboratory services, occur only occasionally and are not material.

At the same time, the firm's output is highly visible. Corporate customers often require proposals, purchase orders, formal invoices, VAT invoices, withholding-tax treatment, and supporting documents as part of the B2B procurement process. Payment may take months, and in some cases the firm faces invoice-period disputes, tax-treatment questions, or price renegotiation after invoicing. This creates a practical tension between formal tax visibility and the firm's cash-flow reality.

Table 3. Case evidence and analytical meaning

Dimension	**Case evidence**	**Analytical meaning**
Formal output visibility	Quotation, purchase order, invoice, VAT invoice, VAT return, corporate payment schedule.	VAT formalization increases market access and fiscal visibility.
Weak input VAT visibility	Labour, fuel, tolls, local workshops, field coordination, disposal-related payments.	Real economic inputs do not become material creditable input VAT.
Customer-mediated compliance	Long payment terms, withholding-tax questions, invoice-period issues, price pressure.	Compliance burden is shaped by customers, not only by the tax authority.
Routine compliance	Internal admin handles routine documents; VAT is paid on time; support team reviews periodic filings.	The case concerns compliant discomfort, not refusal to comply.
Exceptional escalation	Documentary mismatch between commercial invoice, withholding evidence, and VAT records.	Non-routine documents can trigger tax visibility and require explanation.

Source: Author reflective reconstruction.

Data Analysis and Trustworthiness

The analysis was conducted through reflective reconstruction and thematic interpretation. First, recurring episodes were organized chronologically around the firm's movement from informal growth to VAT formalization. Particular attention was given to the decision to become a taxable entrepreneur, the development of routine tax administration, and the emergence of non-routine VAT and withholding-tax disputes.

Second, the episodes were grouped into analytical themes. The main themes were formalization as market access, the input visibility gap, monthly VAT billing discomfort, customer-mediated tax friction, tax timing versus cash timing mismatch, documentary mismatch as an exceptional escalation issue, and the relevance of certain-amount VAT as a policy reflection.

Third, these themes were interpreted in relation to literature on autoethnography, SME tax compliance burden, VAT design, and simplification mechanisms. The aim was not to generalize statistically from one firm, but to develop an analytically useful account of how ordinary VAT mechanisms may be experienced by a small labour-intensive service firm.

Several steps were taken to strengthen the trustworthiness of the analysis. First, the study focuses on repeated patterns rather than isolated anecdotes. Second, the author distinguishes between routine tax administration, non-routine customer document disputes, and exceptional clarification episodes. Third, the analysis avoids treating the case as evidence of all small service firms. It is presented as a situated account that can illuminate a broader issue in SME taxation.

Ethical care is especially important because the study is based on a real firm and real tax-support experience. The firm, customers, employees, and specific transactions are anonymized. The article does not reproduce confidential documents, screenshots, tax identification numbers, or exact customer identities. The purpose is not to evaluate legal fault or disclose tax disputes, but to understand how VAT formalization is experienced and managed in a small labour-intensive service business.

RESULTS AND DISCUSSION

Overview of the Case

The case shows that VAT formalization can create a paradox for a small labour-intensive service firm. Formalization allowed the firm to serve corporate and institutional customers that required proposals, purchase orders, invoices, VAT invoices, and tax-compliant documentation. At the same time, it exposed the firm to monthly VAT obligations, customer document disputes, long payment terms, and a recurring mismatch between output VAT and creditable input VAT.

The firm did not experience VAT friction because it refused to comply. Routine tax administration was handled by internal administrative staff, supported by tax-support staff when necessary. Monthly VAT obligations were paid on time. The problem was that compliance did not remove discomfort. Instead, formal compliance made the firm more visible to customers and tax administration while its real cost structure remained only partly visible within the VAT credit mechanism.

The findings are presented in six themes: formalization as market access, the input visibility gap, monthly VAT billing discomfort, customer-mediated tax friction, documentary mismatch as exceptional escalation, and the policy relevance of certain-amount VAT.

Formalization as Market Access

The firm's decision to become a taxable entrepreneur was not merely a legal obligation. It was also a strategic decision to enter and remain in corporate markets. Many corporate customers require suppliers

to provide formal invoices, purchase orders, and VAT documentation. For this firm, VAT registration became part of the price of being accepted as a legitimate vendor.

This matters because the firm's growth was not driven only by traditional local networks. The owner had digital capability and used online visibility, including web presence and Google advertising, to attract customers. This made the firm more visible to corporate buyers. However, digital visibility and corporate demand also brought administrative expectations. Once the firm entered this market, it had to speak the language of formal procurement: proposal, purchase order, invoice, VAT invoice, tax withholding, payment term, and supporting documents.

In this sense, VAT formalization worked as both opportunity and exposure. It opened access to larger customers, but it also inserted the firm into a more demanding administrative environment. The firm became more credible to corporate customers, but also more accountable to monthly tax routines and customer-side document requirements.

This finding suggests that small-firm formalization should not be understood only as a movement from non-compliance to compliance. In practice, it may also be a movement from a simpler customer environment to a more demanding one. The firm became formal not because formality was administratively easy, but because formality was commercially useful.

The Input Visibility Gap

The strongest finding is the mismatch between the firm's economic inputs and its creditable VAT inputs. The firm's output was highly visible through corporate invoices and VAT documentation. Its input side, however, was much less visible within the VAT credit mechanism.

The firm's main costs were labour, field operations, vehicle maintenance, fuel, tolls, disposal-related payments, and operational coordination. These costs were essential to service delivery. Without workers, vehicles, fuel, maintenance, access to disposal facilities, and field coordination, the service could not be performed. Yet many of these inputs did not generate material creditable input VAT.

Routine creditable input VAT mainly came from digital advertising expenditure. Other possible input VAT sources, such as laboratory or testing services, appeared only occasionally and were not material. Vehicle maintenance could theoretically be performed through larger formal workshops, but the firm often relied on trusted local workshops that were more affordable, flexible, and familiar with the firm's operational needs. This reflects small-firm procurement logic: the best supplier is not always the most tax-formal supplier, but the one that is practical, trusted, and economically workable.

This is the input visibility gap. The firm had real inputs, but many of them were not visible as creditable VAT. The issue was not the absence of business costs. The issue was that the VAT system recognized only certain types of input through formal tax documentation. Labour, field risk, waiting time,

vehicle movement, and operational coordination mattered economically, but they did not produce input VAT credits in proportion to their business importance.

This gap explains why VAT felt different for this service firm than it might for a trading or manufacturing firm. In trading and manufacturing, purchases of goods, materials, or inventory often generate input VAT that can be credited against output VAT. In this labour-intensive service case, output VAT was clear and recurring, while input VAT was thin. The firm's work was visible to customers, but its cost structure was only weakly visible to the VAT credit mechanism.

Monthly VAT Billing and Compliant Discomfort

Monthly VAT billing became the most routine form of discomfort. The firm paid its VAT obligations on time, but every billing cycle made the imbalance between output VAT and input VAT visible. The discomfort was not caused by late payment or refusal to report. It came from the repeated realization that output VAT could be large while creditable input VAT remained limited.

From a legal perspective, VAT is collected from customers and remitted by the taxable entrepreneur. From the firm's practical perspective, however, VAT did not always feel like a neutral pass-through amount. Several factors made it feel closer to a business burden. First, some customers treated quoted prices as inclusive of VAT, making it difficult to add VAT explicitly without risking the customer relationship. Second, customers could delay payment, while tax obligations still followed the invoice and reporting cycle. Third, input VAT credits were too small to offset the psychological and cash-flow weight of output VAT.

This produced what this paper calls compliant discomfort. The firm complied, paid, and reported, but experienced VAT as misaligned with its labour-intensive business model. The discomfort was not anti-tax resistance. It was a practical unease arising inside compliance.

This distinction is important. Many discussions of small-business taxation focus on non-compliance, informality, or lack of awareness. This case shows another possibility: a small firm may become formal, comply with tax obligations, and still experience the system as poorly fitted to its economic structure. In such cases, the issue is not simply whether the taxpayer follows the rule. The issue is how the rule feels and functions when applied to a particular business model.

Customer-Mediated Tax Friction

VAT friction in this case was not produced by tax rules alone. It was also shaped by customers. Corporate and institutional customers influenced the firm's tax experience through payment terms, procurement documentation, withholding-tax practices, and bargaining power.

In ordinary transactions, the firm often followed a formal B2B sequence: proposal or quotation, purchase order, service delivery, invoice, VAT invoice, and payment. With well-organized customers, document requirements were usually clear from the beginning. These customers could be administratively

demanding but predictable. The firm could prepare the required documents and align them with tax reporting.

The more difficult cases involved customers whose administrative expectations were unclear, inconsistent, or asymmetric. Some customers asked about Article 23 withholding-tax treatment, but did not always provide withholding-tax evidence promptly. Some disputed the tax period of VAT invoices. Others requested replacement invoices, cancelled invoices, or additional PKP-related documents. These issues were usually outside the firm's routine administrative flow and had to be escalated to tax-support staff.

Payment timing was another major friction. Some corporate customers took months to settle invoices. In one large-value transaction, payment moved into the following year and the price was renegotiated after invoicing, even though VAT had already been paid based on the issued invoice. This created a clear mismatch between tax timing and cash timing. The firm became fiscally accountable before it became economically settled.

The firm's bargaining position limited its ability to respond aggressively. Corporate customers were valuable. Losing them could mean losing access to significant revenue. Therefore, the firm often had to accept long payment terms, document requirements, and price pressure. VAT compliance was thus shaped by customer power. The small firm was formal enough to be taxed, but not always powerful enough to control the terms of formality.

This finding shows that tax compliance is not only a relationship between the taxpayer and the state. It is also mediated by customers. The customer's administrative competence, payment discipline, bargaining position, and tax-document preferences can directly shape the supplier's compliance burden.

Documentary Mismatch and Exceptional Escalation

Most tax work in the firm was routine. Internal admin handled daily administration, while tax-support staff helped with periodic filings and non-routine issues. However, one exceptional episode showed how documents can create tax visibility even when the underlying transaction is disputed.

The episode involved unauthorized use of the firm's invoice by a former employee. The invoice created a commercial trace under the firm's name, while the underlying service was not recorded as the firm's official transaction. Because it was not treated as the firm's official sale, it was not matched with an output VAT invoice. Later, a mismatch appeared between commercial documentation, withholding-tax evidence, and VAT records. This mismatch triggered a tax clarification process.

The importance of this episode does not lie in the personal conduct of the former employee. The analytical point is that tax administration reads documents. Once a commercial document circulates under a firm's name, it can create fiscal visibility. The firm may then be required to explain why commercial traces, withholding evidence, and VAT records do not align.

This episode illustrates a wider problem in small-firm tax administration: compliance depends on document control. A small firm may pay taxes on time and maintain routine filings, but a document that circulates outside normal control can create a tax issue. In this case, VAT friction emerged not from ordinary sales, but from documentary mismatch. The firm had to move from routine filing into explanation, clarification, and reconstruction of the transaction trail.

The episode also shows the layered nature of tax-support work. Routine invoices and filings can be handled by internal admin. Non-routine disputes may be handled by tax-support staff. High-stakes clarification requires senior involvement, not necessarily because the tax calculation is complex, but because the firm must translate messy commercial reality into a credible administrative explanation.

Why Certain-Amount VAT Becomes Thinkable

The case does not prove that ordinary VAT is wrong. Rather, it shows why ordinary VAT may fit some small firms unevenly. The firm's discomfort emerged not from non-payment, but from the recurring imbalance between visible output VAT and weak input VAT. This makes certain-amount VAT conceptually relevant.

A deemed or certain-amount VAT mechanism could reduce the mismatch between tax administration and the cost structure of labour-intensive small service firms. It would also reduce recurring administrative disputes over small input credits that do not materially change the VAT position. Such a mechanism would not need to be framed as a reward for weak compliance. It could be framed as a design response to a business model where the ordinary input-credit mechanism has limited practical relevance.

The Indonesian VAT system already recognizes sector-specific methods. This does not mean that sanitation and wastewater service firms should automatically receive the same treatment. It means that the policy vocabulary is available. If VAT policy can acknowledge sector characteristics in other areas, then labour-intensive small services may be considered as a category requiring further empirical and policy attention.

For this study, the policy implication is modest. The paper does not recommend an immediate rule change for all service SMEs. It argues that the case provides a reason to study whether simplified or certain-amount VAT could better align tax administration with the economic structure of small labour-intensive service firms.

Discussion: VAT Formalization and the Uneven Fit of Ordinary VAT

The findings show that ordinary VAT may fit labour-intensive small service firms unevenly. The problem is not simply that such firms dislike paying tax. In this case, the firm became formal as a conscious market strategy, paid VAT on time, and developed routine tax administration. Yet the

experience remained uncomfortable because the VAT mechanism recognized the firm's output more clearly than its inputs.

The concept of the input visibility gap helps explain this experience. The firm's corporate invoices made output VAT visible. However, its main inputs were labour, field operations, vehicles, fuel, tolls, maintenance, and delayed collection. These inputs were central to the service, but many of them did not generate material input VAT credits. The result was a structural imbalance between taxable output and creditable input.

This imbalance was intensified by customer relationships. Corporate customers helped the firm grow, but also brought long payment terms, document expectations, withholding-tax issues, and bargaining pressure. Some customers treated VAT as part of the agreed price rather than a clear addition to it. Others delayed payment while the firm still had to manage its tax obligations. In this sense, VAT friction was not only a technical tax issue. It was also a relational and cash-flow issue.

The study therefore challenges a simple compliance versus non-compliance view of small-business taxation. The firm was compliant, but compliance did not eliminate burden. Instead, compliance made the burden more visible. The firm entered formal markets, became legible to customers and tax administration, and learned to manage monthly tax routines. But that same formality exposed the firm to timing mismatches, document disputes, and output VAT that felt disproportionate to its creditable input VAT.

For practitioners, the findings suggest that small service firms need more than tax filing assistance. They need document control, customer-term awareness, invoice-period discipline, withholding-tax monitoring, and cash-flow planning around VAT obligations. The administrative problem is not only how to file correctly, but how to prevent customer relationships and document mismatches from creating avoidable tax friction.

Overall, the case shows that VAT formalization can produce a condition of compliant discomfort. The firm pays and reports, but still experiences VAT as administratively and economically misaligned with its labour-intensive service model. This discomfort is not a rejection of tax. It is a signal that the ordinary VAT mechanism may not fit all small business models equally well.

CONCLUSION

This study examined how VAT formalization is experienced by a small labour-intensive sanitation and wastewater service firm in Indonesia. The firm became a taxable entrepreneur not simply because of legal pressure, but also because formal tax status supported access to corporate markets. Corporate customers required proposals, purchase orders, invoices, VAT invoices, and tax-compliant

documentation. In this sense, VAT registration helped the firm become more acceptable as a formal vendor.

However, formalization also created recurring friction. The firm paid its VAT obligations on time and developed routine tax administration through internal admin work and external tax-support assistance. Yet compliance did not remove discomfort. The main problem was the mismatch between highly visible output VAT and weakly visible input VAT. The firm's output was visible through invoices and VAT documentation, while its main economic inputs, including labour, vehicle maintenance, fuel, tolls, disposal-related payments, field operations, and coordination, generated limited creditable input VAT.

The study introduces the concept of the input visibility gap to explain this mismatch. The input visibility gap refers to the distance between costs that are economically necessary for service delivery and inputs that are fiscally visible as creditable VAT. In the case examined, this gap made ordinary VAT feel poorly aligned with the firm's labour-intensive business model. VAT was legally collected from customers, but it was experienced as a recurring pressure on cash, margin, and administrative attention.

The study also shows that VAT compliance is shaped by customers. Corporate clients did not only buy services; they also brought payment terms, document requirements, withholding-tax issues, invoice-period disputes, and bargaining pressure. Long payment terms created a mismatch between tax timing and cash timing. In some cases, VAT was already paid before customer payment was economically settled. This made compliance a relational and cash-flow issue, not merely a technical tax issue.

The findings contribute to SME taxation literature by moving beyond a simple compliance versus non-compliance distinction. The case shows that a small firm can be compliant and still experience VAT as burdensome because the ordinary input-credit mechanism does not fully recognize its cost structure. This condition is described as compliant discomfort: the firm pays, reports, and participates in formal markets, but experiences VAT as administratively and economically misaligned with its business model.

The practical implication is that small labour-intensive service firms need support not only in filing tax returns, but also in managing documents, invoice periods, withholding-tax evidence, customer payment terms, and cash-flow planning around VAT obligations. For policymakers, the case suggests that simplified, deemed, or certain-amount VAT mechanisms may deserve further attention for small service firms whose main inputs do not generate material input VAT credits. Such mechanisms should not be viewed only as concessions to weak compliance, but also as possible responses to business models where ordinary VAT does not capture real input structures well.

This study has limitations. It is based on one firm and the author's insider-adjacent tax-support experience. Therefore, the findings are not statistically generalizable. The purpose is analytical rather than representative. Future research may compare several labour-intensive service firms across sectors,

examine how payment terms affect VAT pressure, or analyze how customer-side tax practices shape the compliance burden of small suppliers. Further studies may also compare ordinary VAT and simplified VAT mechanisms from the perspective of service-based SMEs.

In conclusion, VAT formalization can help small service firms enter formal markets, but it can also make them more exposed to fiscal visibility, customer document requirements, and cash-flow pressure. For labour-intensive small service firms, the core issue is not whether they have inputs, but whether those inputs are visible within the VAT credit mechanism. When real inputs remain fiscally thin, ordinary VAT may produce compliance without comfort.

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