


## Legal Protection for Micro-Entrepreneurs in Tax Disputes: A Comparative Study of Indonesia and Malaysia

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Article Info	ABSTRACT
<b>Keywords:</b> Legal Aid Micro-Entrepreneur Tax Dispute	This study explores the implementation of legal protection mechanisms for micro-entrepreneurs involved in tax disputes in Indonesia and Malaysia, using a qualitative comparative case study approach. By focusing on two core variables tax regulation compliance and access to legal aid and considering the moderating role of national legal contexts, the research examines institutional, procedural, and cultural differences that shape tax justice outcomes. Data were collected through in-depth interviews with micro-entrepreneurs, legal aid practitioners, and tax officials, complemented by secondary sources including legal documents and scholarly literature. The findings reveal significant disparities between the two countries: while Malaysia has institutionalized early-stage mediation and integrated legal aid into its tax dispute framework, Indonesia's system remains reactive, fragmented, and inaccessible to most micro-entrepreneurs. These structural differences impact not only the effectiveness of dispute resolution but also taxpayer compliance and trust in legal institutions. The study highlights the importance of institutional synergy, legal awareness, and early legal intervention in promoting equitable access to tax justice. Practical recommendations include reforming Indonesia's legal aid structure, enhancing inter-agency collaboration, and introducing non-litigious resolution mechanisms. This research contributes to regional discourse on fiscal justice and offers insights for policy reforms aimed at supporting vulnerable economic actors within developing legal systems.
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### INTRODUCTION

Legal protection for micro-entrepreneurs is a fundamental pillar in ensuring economic justice and social equity, especially within developing economies where micro-enterprises form the backbone of national growth. Despite their economic significance, micro-entrepreneurs are often exposed to regulatory uncertainties, particularly in the realm of tax administration and dispute resolution. Legal protection in this context refers to the availability of rights-based mechanisms, legal clarity, and institutional support that enable micro-entrepreneurs to assert their rights and resolve disputes fairly [1], [3]. Given their vulnerable position, access to effective legal protection is crucial not only for safeguarding their interests but also for

reinforcing public trust in state institutions and tax systems [2], [4]. Thus, examining the legal framework and practical implementation of protection mechanisms is essential in promoting inclusive economic governance.

Recent years have witnessed a notable increase in tax-related disputes involving micro-entrepreneurs in both Indonesia and Malaysia. This phenomenon underscores the structural challenges faced by this segment of taxpayers ranging from limited legal literacy and procedural barriers to uneven access to legal aid and advocacy [5], [6]. In Indonesia, tax disputes are often exacerbated by a lack of coordination between administrative and legal authorities, while in Malaysia, although tax systems are more technologically integrated, micro-entrepreneurs still encounter challenges due to language barriers and limited outreach [7]. This comparative phenomenon points to an urgent need for in-depth research into how each country enforces legal protection, which mechanisms are effective, and what lessons can be drawn for regional policy harmonization.

Tax regulation compliance is a key determinant of whether tax disputes arise and how they are resolved. Compliance entails not only accurate filing and timely payments but also a clear understanding of tax obligations and rights. For micro-entrepreneurs, such compliance is often hampered by low financial literacy, inconsistent tax policy implementation, and the absence of tailored educational initiatives [8], [9]. In Indonesia, complexity in the tax code and limited digital infrastructure lead to unintentional noncompliance. Malaysia, in contrast, has taken steps to simplify reporting processes through e-filing systems, yet gaps remain in taxpayer guidance and field-level enforcement [7]. Hence, improving tax compliance requires a dual approach: simplifying legal texts and enhancing institutional support mechanisms, especially for small-scale economic actors.

Legal aid access represents another vital component in ensuring that micro-entrepreneurs can adequately defend their interests in tax disputes. Legal representation, counseling, and dispute mediation are crucial to level the playing field between small taxpayers and institutional authorities [10]. In Indonesia, the provision of state-funded legal aid to micro-entrepreneurs remains insufficiently coordinated and highly urban-centered. Meanwhile, Malaysia has introduced several initiatives aimed at improving legal outreach to SMEs, but issues such as cost, awareness, and procedural rigidity persist [11]. As such, institutionalized access to legal aid not only enhances fairness in tax adjudication but also serves as a preventive mechanism by empowering entrepreneurs with knowledge of their legal rights and obligations.

To account for the distinct legal environments, this study introduces country context (Indonesia vs. Malaysia) as a moderating variable. Legal system differences, policy implementation gaps, and administrative efficiency are all factors that shape how effectively tax regulation compliance and legal aid access translate into substantive legal protection [12]. Indonesia's legal system combines civil law traditions with decentralized governance, while Malaysia operates under a hybrid system with more centralized tax authority. These distinctions are likely to influence the relationship between independent variables and the dependent variable of legal protection. Thus, by adopting a comparative analytical framework, this study seeks to uncover the institutional and procedural factors that mediate effective legal

protection in different national settings.

While legal protection for micro-entrepreneurs has been addressed in prior studies, most research remains fragmented, focusing separately on tax compliance or access to legal aid without evaluating their combined impact on dispute resolution outcomes. Furthermore, limited comparative analyses exist between countries with differing legal systems, such as Indonesia and Malaysia, where micro-entrepreneurs face structural barriers ranging from regulatory complexity and limited legal literacy to insufficient institutional support. Previous works (e.g., [1], [4]) fail to explore how national legal contexts moderate the effectiveness of legal protection mechanisms. This study addresses this gap by developing a comparative framework that analyzes the influence of tax compliance and legal aid access on legal protection in tax disputes, introducing legal system differences as a moderating variable. The novelty of this research lies in its cross-national design, its focus on micro-entrepreneurs, and its potential to inform legal policy harmonization across Southeast Asia.

The main objective of this study is to examine and compare the implementation of legal protection mechanisms for micro-entrepreneurs involved in tax disputes in Indonesia and Malaysia. Specifically, it analyzes the influence of tax regulation compliance and access to legal aid on the effectiveness of legal protection, while considering the moderating role of national legal context. Theoretically, the research contributes to the growing body of literature on legal empowerment, tax justice, and microeconomic governance. Empirically, it offers practical recommendations for policymakers in Indonesia and Malaysia to enhance the legal infrastructure that supports equitable tax systems and promotes economic inclusivity for micro-entrepreneurs.

## METHOD

This study employs a qualitative approach using a comparative case study design to examine the implementation of legal protection mechanisms for micro-entrepreneurs involved in tax disputes in Indonesia and Malaysia. A qualitative methodology enables a deeper investigation into experiences, institutional frameworks, and legal perceptions, particularly in contexts where structural and administrative variations play a critical role [1]. The primary focus is on two variables: tax regulation compliance and access to legal aid, with national legal context acting as a moderating factor influencing the efficacy of legal protection.

Data were collected through in-depth interviews with selected micro-entrepreneurs, tax officials, and legal aid practitioners from both countries. Secondary data were gathered from government policy reports, legal documents, and peer-reviewed academic literature. Informants were chosen using purposive sampling, targeting individuals with first-hand involvement in tax dispute cases and regulatory interpretation. Data triangulation was employed to validate findings and enhance credibility, integrating various sources and methodological perspectives [2]. A thematic-comparative analysis was conducted to assess regulatory mechanisms, procedural accessibility, and institutional support structures in each national context.

This research fills a gap in existing literature by analyzing how legal environments shape micro-entrepreneurial access to tax justice, particularly in Southeast Asian jurisdictions.

Unlike prior studies which treated tax compliance and legal aid as isolated elements, this research integrates them to understand their combined effect on legal protection [3], [4]. The expected outcome is to generate practical and theoretical insights that can aid policy development for more equitable tax dispute resolution systems in both Indonesia and Malaysia [5].

## RESULTS AND DISCUSSION

This qualitative comparative case study investigates the implementation of legal protection mechanisms for micro-entrepreneurs involved in tax disputes in Indonesia and Malaysia. By employing a multi-variable framework that centers on tax regulation compliance and access to legal aid, moderated by the national legal context, the study offers an in-depth examination of institutional effectiveness and procedural justice. Data were gathered through in-depth interviews with micro-entrepreneurs, tax officials, and legal aid practitioners, complemented by secondary sources such as legal documents and peer-reviewed literature. The use of purposive sampling ensured the selection of informants with direct experience in tax disputes, while methodological triangulation enhanced the study's validity. The thematic-comparative analysis framework made it possible to identify not only the regulatory constraints but also the procedural differences in legal aid systems across both countries [1], [2].

Findings reveal that Indonesia's legal framework, despite the enactment of Law No. 16 of 2011 on Legal Aid, suffers from limited implementation due to institutional fragmentation, underfunding, and low public legal awareness [3]. Micro-entrepreneurs in Indonesia face procedural barriers such as high litigation costs and complex administrative requirements, which significantly deter legal engagement. On the other hand, Malaysia's Legal Aid Department operates under a more coherent and accessible framework established by the Legal Aid Act of 1971. The presence of early-stage mediation mechanisms and active institutional synergy contributes to more equitable tax dispute resolution and fosters greater voluntary tax compliance among micro-entrepreneurs [4], [5]. Importantly, the research demonstrates that legal aid and tax compliance are interdependent; without sufficient access to legal representation, compliance remains low, particularly among economically vulnerable groups [6]. This interdependency reinforces the need for regulatory reforms and stronger institutional integration in Indonesia, guided by Malaysia's more developed model. Nevertheless, the study is limited by a relatively narrow sample scope and discrepancies in institutional transparency between the two countries, which could influence data comparability and external validity [7].

In addition to procedural disparities, the study identifies cultural and socioeconomic dimensions that significantly shape the perception and utilization of legal protection among micro-entrepreneurs. In Indonesia, cultural norms often discourage individuals from pursuing legal action, especially against government agencies, due to perceived power imbalances and fear of retaliation [1], [2]. This creates a psychological barrier that is not sufficiently addressed by the current legal aid infrastructure. The problem is further exacerbated by the informal nature of many micro-enterprises, which operate without formal registration or accounting systems, thereby limiting their eligibility for formal legal recourse. Malaysia, on the other hand,

has made considerable progress in integrating legal awareness into community-level financial literacy programs, which have improved public understanding of tax obligations and legal rights. These non-formal educational initiatives, supported by both government and civil society organizations, contribute to a more empowered micro-enterprise sector that is capable of navigating legal processes effectively [3].

The role of institutional trust also emerged as a pivotal variable influencing the effectiveness of legal protection mechanisms. In Indonesia, the limited trust in tax authorities and the legal system more broadly has led to underutilization of available legal services, even when such services are formally accessible. Respondents indicated concerns regarding impartiality, bureaucratic inefficiencies, and potential corruption, which deter engagement with legal institutions [4]. Conversely, Malaysian respondents expressed relatively higher levels of institutional trust, attributing it to consistent service delivery and transparent procedural frameworks. This difference in perceived institutional legitimacy has direct implications for policy implementation, as even the most well-designed legal aid programs may fail to achieve impact without addressing underlying issues of trust and legitimacy. Hence, improving legal protection for micro-entrepreneurs requires not only regulatory refinement but also broader institutional reforms that build public confidence in justice mechanisms [5].

From a policy perspective, the research provides actionable insights for improving the equity and functionality of tax dispute systems in Southeast Asia. First, the Indonesian government could benefit from institutionalizing early dispute resolution mechanisms such as mediation, which are proven effective in the Malaysian context. Such mechanisms reduce the burden on formal judicial processes and provide more accessible pathways for micro-entrepreneurs to seek resolution. Second, both countries would benefit from enhancing the integration of legal aid with broader economic development policies targeting the informal sector. Legal protection should not be viewed merely as a corrective mechanism post-dispute but as a proactive tool that supports compliance and fosters sustainable business growth. Finally, continuous monitoring and evaluation systems should be embedded within legal aid institutions to assess the effectiveness of service delivery and adapt to evolving socio-legal needs. These recommendations align with recent literature emphasizing the need for responsive, participatory, and context-sensitive approaches to justice reform in developing economies [6], [7].



**Figure 1.** Legal and Institutional Pathways in Tax Dispute Resolution

This diagram illustrates the distinct pathways micro-entrepreneurs follow in resolving tax disputes in Indonesia and Malaysia, from the initial stages of conflict to final resolution. On the left side, the Indonesian pathway begins with a "Micro-Entrepreneur" encountering a "Tax Dispute." In response, the individual seeks "Legal Aid," typically provided by fragmented legal aid institutions, often with limited accessibility due to financial and structural barriers. This leads to the "Litigation" phase, which is a formal and typically lengthy judicial process, before reaching the final stage, "Resolution." This sequence reflects a reactive and legalistic approach, where legal aid is accessed only after a dispute arises, and formal court procedures dominate the resolution process.

In contrast, the Malaysian pathway shown on the right is more integrated and preventative. It starts similarly with a "Micro-Entrepreneur" engaging with the "Tax Authority." However, Malaysia employs a proactive institutional model where the tax authority serves both a regulatory function and an educational one. If disputes persist, cases move to "Mediation," a non-litigious, cost-effective process that offers early resolution opportunities. Only unresolved matters proceed further, eventually reaching the "Resolution" stage. Legal aid intervention is embedded throughout the process, ensuring continuous support, while early engagement by the tax authority facilitates smoother transitions and minimizes adversarial escalation.

**Table 1.** Comparative Analysis of Legal Protection Mechanisms in Tax Dispute Resolution for Micro-Entrepreneurs in Indonesia and Malaysia

Analytical Dimension	Indonesia	Malaysia
Legal Framework	Legal Aid Law No. 16/2011	Legal Aid Act 1971
Implementation Practice	Fragmented, reliant on NGOs and legal clinics	Centralized, government-managed Legal Aid Dept
Procedural Accessibility	High cost, complex processes	Low cost, initial mediation available



Analytical Dimension	Indonesia	Malaysia
Legal Awareness	Low among micro-entrepreneurs	Moderate to high
Institutional Synergy	Weak coordination among agencies	Strong inter-agency cooperation
Impact on Tax Compliance	Limited	Positive correlation with voluntary compliance

Table 1 presents a structured comparison of legal protection mechanisms in tax dispute resolution for micro-entrepreneurs in Indonesia and Malaysia, highlighting key institutional and procedural distinctions. The table reveals that while both countries possess formal legal aid frameworks Indonesia through Law No. 16/2011 and Malaysia via the Legal Aid Act 1971 their implementation diverges sharply. Indonesia's system remains fragmented and highly reliant on non-governmental legal clinics, with limited procedural accessibility due to high costs and complex litigation processes. In contrast, Malaysia demonstrates a more centralized and accessible model, managed directly by the government through the Legal Aid Department, offering early-stage mediation that reduces dependency on court litigation. Legal awareness among micro-entrepreneurs is also significantly higher in Malaysia, owing to targeted outreach and integration with public services. Moreover, institutional synergy is more robust in Malaysia, fostering a positive correlation between legal protection and tax compliance. These contrasts underscore Malaysia's advantage in leveraging legal aid as both a protective and preventive tool, while Indonesia's system still struggles with structural and institutional bottlenecks that hinder equitable access to tax justice.

## CONCLUSION

This study concludes that the effectiveness of legal protection mechanisms for micro-entrepreneurs in tax dispute resolution is profoundly influenced by the structural, procedural, and institutional contexts within which these mechanisms operate. The comparative analysis between Indonesia and Malaysia reveals that while both nations possess formal legal aid systems, Malaysia demonstrates a more integrated and proactive approach, marked by institutional coordination, accessible mediation processes, and higher levels of legal awareness among micro-entrepreneurs. In contrast, Indonesia's legal aid implementation remains fragmented, reactive, and largely limited to post-dispute litigation, with minimal institutional synergy and procedural accessibility. These findings highlight the critical need for Indonesia to reform its legal infrastructure by embedding early-stage dispute resolution tools such as mediation, enhancing public legal literacy, and fostering stronger inter-agency collaboration. By doing so, legal aid can be transformed from a remedial measure into a strategic instrument that promotes both tax compliance and equitable access to justice. More broadly, the study underscores the importance of designing legal protection frameworks that are context-sensitive, participatory, and aligned with the economic realities of the micro-enterprise sector in Southeast Asia.

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