

The Taxation in Indonesia: Problems and Solutions

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Abstract. *This study aims to analyze the problems of tax collection and find alternative solutions in overcoming tax collection problems. This study uses an empirical juridical approach. The results of this study indicate that First, taxes collected by the state must be based on juridical law, both in the form of laws and other binding regulations. Second, among the problems in tax collection include: (i) The lack of tax socialization. (ii) Low ability to pay taxes, (iii) data accuracy, (iv) Low awareness of paying taxes by taxpayers and (v) Inconsistency of tax regulations. Third, to overcome problems in tax collection, the government can dosystematic cooperation in the form of information sharing between DGT and KPK with mandatory well-managed reporting and information sharing mechanisms by utilizing the Approweb Application, e-LHKPN, and the KPK Whistleblower's System. If cooperation in the exchange of information between authorities can be carried out, DGT can obtain entity data from the KPK on indicators of tax crime to monitor their tax obligations as well as provide feedback in the form of tax non-compliance profiles of entities that meet corruption indicators to the KPK.*

Keywords: Collection; Compliance; Tax.

1. Introduction

Indonesia is a state based on law as stated in the Constitutional basis of the 1945 Constitution. The development carried out is not only in the social, political and economic fields, but also development in the field of law. Legal development is an unavoidable need, especially in developing countries like Indonesia. This is because independence and development have encouraged the state to reorganize people's lives, both in the political, economic and social fields. The

process of changing the order of life of the community in a better direction must first be able to carry out development in the field of law¹.

In achieving the target of economic development, the role of the legal sector has a strategic role. It cannot be denied that there are demands in the economic field for the legal sector which can be used as a useful contribution to support economic growth. Law in its existence in society has a role and influence on economic activity in accordance with the function of the law itself. Law in its function contains instructions for human behavior, tools for resolving conflicts and tools for socio-economic engineering².

In carrying out the development of a country requires several supporting elements, one of which is the availability of adequate and reliable sources of income. To finance it, of course (in this modern era) money is needed. In order to get money, apart from printing it yourself or borrowing, in this modern era there are many ways taken by the government. These sources of income generally consist of: Companies, property owned by the government or controlled by the government, fines and foreclosures in the public interest, inheritance rights over abandoned estates, wills and endowments. other, the three types of fees, namely: taxes, levies, and donations³.

One source of state revenue is taxes. In its function as APBN financing (state revenue and expenditure budget), taxes function to finance all development activities. So that without sufficient revenue, government programs will not run optimally. One of the biggest sources of state revenue is from taxes. In Law no. 28 of 2007 Tax is defined as a mandatory contribution to the state by individuals or entities, is imposing and does not receive direct compensation. Taxes are used for the benefit of the state for the welfare of the Indonesian people.

From this definition of tax, both economically and juridically, it can be concluded that the characteristics of taxes are as follows⁴:

a. Taxes are collected based on law, this is in accordance with the third amendment to Article 23A of the 1945 Constitution which states "taxes and other levies that are coercive for state needs are regulated by law".

¹Mura P. Hutagalung, *Islamic Law in the Age of Development* (Jakarta: Ind Hill Publisher, 1985), p. 9.

²Gunarto Suhardi, 2002, *The Role of Law in Economic Development*, Atmajaya University, Yogyakarta, p. 27.

³R. Santoso Brotodihardjo, *Introduction to Tax Law*, Bandung: PT. Refika Aditama, 21st Print, 2008, p. 9.

⁴Niru Anita Sinaga, *Tax Collection and Its Problems in Indonesia*, Scientific Journal of Aerospace Law, Faculty of Law, Dirgantara University, Marshal Suryadarma, Volume 7 No. 1, September 2016

- b. Do not get reciprocal services (individual contra achievement).
- c. Tax collection is intended for general government financing purposes in order to carry out government functions, whether routine or not.
- d. Tax collection can be forced.
- e. Apart from the budgetary function, it also has a regulatory function.

Achieving revenue from the tax sector is not an easy thing, due to various inhibiting factors in tax collection, both internal and external, for example external factors include: national and international economic problems, as well as the low level of taxpayer compliance. Internal factors, for example: the problem of tax bureaucracy services and criminal acts of corruption in the tax sector, both in terms of obtaining and depositing tax money into the state treasury. And looking at the cases that occurred in Indonesia, it shows that it is common for companies to try to avoid paying taxes, starting from manipulating company financial reports to bribing tax officials (DGT).

Tax avoidance has both positive and negative impacts. The positive impact of tax avoidance for companies is reduced payment of the tax burden borne by the company, while the negative impact is the possibility that companies are at risk of paying penalty fines or damaging the reputation of the company itself. Likewise for the government, efforts to avoid taxes will reduce state revenues from the fiscal sector. Regarding the causes of non-compliant taxpayers in paying taxes, research by Yuliawati and Paulina Sutrisno, in 2021 with the title "Factors Affecting Tax Avoidance". One of the findings of this study is that business strategy influences tax avoidance, for the company's cost efficiency.

Tax collection must be fair, not disrupt the economy. If this step has been taken, public confidence will increase, then the people will be moved to set aside part of their wealth to the state in the form of paying taxes. The awareness and compliance of taxpayers is one of the keys to the government's success in collecting tax revenues so that state revenues can be sustainable.

2. Research Methods

In order to obtain a discussion in accordance with what is contained in the purpose of compiling the formulation of the problem, this legal research uses a juridical-empirical approach, which is carried out by examining library materials which are secondary data and also called library research. Sociological or empirical legal research is carried out by researching in the field which is primary data. Based on the type of data, in this study using primary and secondary data. Primary data obtained from tax actors, from several research informants, it is

hoped that a common thread will be obtained from the problem being studied. While the secondary data in this study includes related laws and regulations, journal articles and reports of the Directorate General of Taxes (DGT).

3. Result and Discussion

3.1. Overview of Tax Law

In a country that adheres to the law, everything related to taxes must be stipulated in the law. Juridically, the basis for collecting taxes is in the 1945 Constitution stated in Article 23 paragraph 2, namely that taxes and other levies must be based on the law. The meaning of the article is that taxes are the transfer of wealth from the private sector to the government sector to finance state expenditures without any directly appointed reciprocal services. So the tax here is the people's wealth that is handed over to the state.

In general, taxes collected by the state must be based on juridical law, both in the form of laws and regulations, which are binding. If taxes are based on voluntarism, then taxpayers will tend to avoid taxes and it can even be said that the public as taxpayers will not want to just hand over their hard-earned results without any return services. Therefore, the existence of the law will provide legal guarantees to taxpayers so that justice can be applied, then another factor that must be taken into account by the state is that the making of tax regulations is endeavored to reflect a sense of justice for taxpayers, because the level of life and the carrying capacity of community members is not The same. There are members of the community who are able, less able, even unable.

Tax law can be divided into 2 (two), namely material tax law and formal tax law. Material tax law is a tax law that contains norms that explain circumstances, actions and legal events that must be taxed or it can also be said everything about the emergence, size and elimination of tax debts, as well as the legal relationship between the government and taxpayers, namely regarding Tax Subjects, Taxpayers, Tax Objects and tariffs. While formal tax law is tax law which contains regulations regarding the ways in which material tax law becomes a reality, including regarding notification letters, tax assessment letters, invoices, bookkeeping, objection/appeal letters, tax payments/collections (with forced), how to calculate taxes, administrative sanctions, provisions of criminal law,⁵.

The tax law directs that tax collection cannot be separated from the principle of justice, as well as other tax collection principles. The application of the tax collection principle is the key to the success of tax collection. According to Adam

⁵Jajat Djuhadiat S, DPT III Module Introduction to Tax Law, Jakarta: Ministry of Finance-BPLK, 1993, p. 15.

Smith that principle includes: (i) The principle of equality means the principle of balance with ability or the principle of fairness and it is defined that tax collection must be fair, according to the ability (ability to pay) and income of the taxpayer, without being partial and discriminatory. (ii) The principle of Certainty is the principle of legal certainty in which any tax collection made must be based on the Law and there must be no deviation. (iii) Convenience of Payment Principle: This principle is also known as the principle of timely tax collection, namely tax is collected when the taxpayer is in good times and is happy, for example when you just received income tax or received a gift. And (iv) The principle of efficiency, namely the cost of collecting taxes is carried out as efficiently as possible so that administrative costs for collecting taxes do not occur that are greater than the tax revenue itself⁶. So that the existence of juridical law that applies in a country must be able to accommodate these principles in the application of tax collection.

3.2. Problems in Tax Collection in Indonesia

As we understand that the juridical law that applies in Indonesia that regulates taxation in the form of laws, government regulations has long been formed and enforced in Indonesia, but there are still many fundamental problems or obstacles in its implementation, and it is classic in nature. Of course this will have a negative impact on the results of tax revenues as a source of state revenue which will ultimately disrupt the space for fiscal movement in development. Based on the results of the literature, there are several problems in tax collection in Indonesia, including:

First, lack of tax socialization. Lack of outreach from the government to the public as taxpayers regarding the importance of paying taxes, the benefits of paying taxes, and the sanctions that will be received if the taxpayer neglects his obligations. In addition to the low awareness of Human Resources (HR) knowledge, it also influences, where Taxpayers do not understand the importance of paying these taxes, do not know how to register, calculate and self-report the Tax Objects that they control, own and use.

Second, low ability to pay taxes. The economic level of some Taxpayers is very low which greatly affects, where Taxpayers still prioritize basic costs, such as: School fees, health costs and so on, rather than paying taxes. Low income can also lead to tax evasion by taxpayers. Tax avoidance is an attempt to reduce the tax burden paid but is done ethically and legally, not contrary to applicable tax

⁶Gazali, Taxes in the Perspective of Islamic Law and Positive Law, Muamalat Journal of Sharia Economic Law Volume VII, Number 1 June 2015, page, 85

regulations⁷. According to Supramo and Theresia (2010), there are two types of tax avoidance, namely passive and active avoidance. Passive evasion means tax avoidance but there is no violation of tax regulations (tax evasion), while active evasion is an act of avoiding tax to the government, but the action violates tax regulations (tax evasion).⁸.

Third, data accuracy. *Databases* which is still far from international standards. Even though the database is crucial for testing the correctness of tax payments with a self-assessment system. Conditions like this make it difficult for empirical research aimed at testing taxpayer compliance. Taxpayers can provide information and reports that are not in accordance with the actual conditions. A complete and accurate database influences the effectiveness of law enforcement and also taxpayer compliance. Furthermore, taxpayer compliance affects tax revenue.

Fourth, low awareness of paying taxes by taxpayers. The lack or absence of public awareness as taxpayers to pay taxes to the state is a form of resistance. The taxpayer's perception that it is useless to pay taxes in an orderly manner, because in the end it will be used wastefully and not on target and will even be corrupted by some of the tax officials. The level of taxpayer compliance that is still low will lead to a greater difference between the amount of tax paid by the taxpayer and the amount of tax that should be paid. Taxpayer those with large incomes tend to be more compliant than those with low incomes because those with large incomes tend to be more conservative in reporting their tax obligations. The application of high tax rates is also an obstacle, because it is burdensome for taxpayers.

Fifth. Inconsistency of Tax Regulations. Regulations implementing laws are often inconsistent with laws; the large number of official and unofficial levies both at the central and regional levels; weak law enforcement (law enforcement); convoluted bureaucracy and so on which should, if done properly, certainly help in realizing good governance in the form of a clean and authoritative government. The existence of resistance to taxes is a problem that exists or occurs in efforts to collect taxes. Inconsistency of tax regulations can be caused by the overlap of new regulations with old regulations.

3.3. Government Efforts to Increase Taxpayer Compliance with Compliance in Paying Taxes

⁷Diantari, PR, & Ulupui, IA (2016). The Influence of the Audit Committee, the Proportion of Independent Commissioners, and the Proportion of Institutional Ownership on Tax Avoidance. *E-Journal of Accounting*, 16(1), 702–732

⁸Yuliawati and Sutrisno, Paulina. Factors Influencing Tax Avoidance. *Journal of Information, Taxation, Accounting, and Public Finance*. Vol 16 No. July 2, 2021: 203-222.

In both developed and developing countries like Indonesia, taxpayer compliance is an important issue. Non-compliance by taxpayers in fulfilling their tax obligations will lead to efforts by taxpayers to do tax evasion, so that tax revenues to the Indonesian state treasury will decrease. It is common knowledge that the level of compliance of taxpayers, especially individual taxpayers, is still very low in carrying out their tax obligations based on the self-assessment system implemented in the Indonesian tax system.

According to McClenny and Killough in Putra (2017), there are two ways that can be used to increase taxpayer compliance. Namely increasing awareness among the taxpayers themselves and providing strong sanctions threats to violators. Technically, DGT can use educative and persuasive methods, such as providing customized outreach, providing superior service, and applying strict sanctions, so that taxpayers feel that their rights and obligations as citizens are respected. These practices are expected to increase taxpayer compliance through taxpayer awareness.

Based on this theory, the increase in individual taxpayer compliance can be assessed through the variables measured, namely tax sanctions, transparency, and tax modernization. If the system that has been provided by the Directorate General of Taxes (DGT) can be used optimally by individual taxpayers, and the availability of transparent information regarding the management, use and utilization of taxes to various parties, then tax obligations will be carried out voluntarily.

Technically related to the government's efforts to improve tax compliance for taxpayers, we can take from the results of research by Redhy Matabeana and Vishnu Juwonob in 2019, where the results of their research show that the design of policies for systematic cooperation between tax authorities (DGT) and queue corruption (KPK) can be a solution. The cooperation is based on the consideration of three important aspects namely; (i) How to identify tax non-compliance behavior, (ii) How to identify indicators of tax crime and corruption by each authority, and (iii) How to choose the form of cooperation to be carried out.

If cooperation in the exchange of information between authorities can be carried out, DGT can obtain entity data from the KPK on indicators of tax crime to monitor their tax obligations as well as provide feedback in the form of tax non-compliance profiles of entities that meet corruption indicators to the KPK. This cooperation is expected to be one of the strategies to support efforts to increase tax compliance, so that tax avoidance behavior for taxpayers, as is often done by entrepreneurs, can be identified as early as possible, so that in the long run it will increase taxpayer compliance.

4. Conclusion

Based on the description of the research results above, three main conclusions can be drawn. First, taxes collected by the state must be based on juridical law, both in the form of laws and other binding regulations. Tax law can be divided into 2 (two), namely material tax law and formal tax law. The tax law directs that tax collection cannot be separated from the principle of justice, as well as other tax collection principles. Second, although juridical law relating to tax management has been in effect since Indonesia was not yet independent, in reality there are still many problems in tax collection. Among the problems in tax collection include: (i) The lack of tax socialization. The economic level of some taxpayers is very low, causing taxpayers to avoid taxes, (iii) data accuracy. *Databases* which is still far from international standards, making it difficult to identify taxpayers both from the amount of tax obligations and others, (iv) Low awareness of paying taxes by taxpayers. The lack or absence of public awareness as taxpayers to pay taxes to the state is a form of resistance, and (v) Inconsistency of tax regulations, this is due by the overlapping of new regulations on old regulations. Third, to overcome problems in tax collection, the government can do systematic cooperation in the form of information sharing between DGT and KPK with mandatory well-managed reporting and information sharing mechanisms by utilizing the Approweb Application, e-LHKPN, and the KPK Whistleblower's System. If cooperation in the exchange of information between authorities can be carried out, DGT can obtain entity data from the KPK on indicators of tax crime to monitor their tax obligations as well as provide feedback in the form of tax non-compliance profiles of entities that meet corruption indicators to the KPK.

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