



Tax Evasion and Tax Administration Overview in Indonesia Taxation

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ABSTRACT- Tax evasion activity sometimes argued that tax evasion is justifiable or not. This judgment is always affected by that country political situation as well as corrupt officials and the complexity of that country regulation. A country with weak and complex administration is a problem that will create an opportunity for entrepreneur to take tax evasion activity to increase their income. This is a challenge for government to make an effective and efficient tax administration system due to nation large geography and diversity culture. With a good, structured and transparent government on their country tax administration will help the government to minimize the tax evasion.

INDEX TERMS- tax evasion, tax administration, taxation

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I. INTRODUCTION

Indonesia officially become an independent with sovereignty in Indonesia people after the proclamation that announced by their president Ir. Soekarno on August 17, 1945 with enact and stabilize of Pancasila ideology and the 1945 constitution. A country needs to make and establish a policies and law in order to achieve the state goals, therefore the sufficient of human resources also needed for a country to implement the policies. For Indonesia as an independent country requires a large amount of funds to cover its nation expenditure to survive and competitive with other Nation. Based on the Law of the Republic of Indonesia number 17 year 2003 about State Financing article 11 paragraph 3 stated that country revenue is comes from tax revenue, non-tax revenue, and grants. Tax revenue is considered as the main source of income because, in general, a person will be taxed by their earning with a certain limited amount.

Tax is an obligation fees for all citizen to The Country in order for running a state. Based on General Provisions of Taxation and Administration number 28 year 2007 article 1 point 1 defines tax as a form of compulsory contribution to the State that is owed by an individual or entity with compelling under the law and with no compensation which directly and used for the needs of the state for the greatest prosperity of the people. Tax collection activity also requires a system and procedures that need to be considered, such as tax policies, laws and administration.

In 1991, Hebert Simon argued that administration s like two people working together to push a rock that cannot be rolled by just one person between them. The cooperative action needed to push the rock, likewise in administrative activities the cooperative and synchrony are need to achieve the goal. Other example, a company is an organization that aims to create profits by doing business. In this organization, of course, requires proper and efficient administration to achieve company goals.

Based on Shome research in 2006 argues that the role of tax administration is very important in order to maximize state revenue and reduce loss from tax avoidance or evasion activity. This problem is a major challenge for any country in develop their tax administration. The development of tax administration does not only need to prioritize maximizing and minimizing but optimizing the income at the lowest possible cost.

Palan's research (2010) also found that tax administration has a direct relationship with three technical concepts. The concept consists of tax savings are tax avoidance, tax evasion, and corruption. In principle, it is difficult to distinguish between each concept, especially because it is influenced and concerned by the complexity of the law in the country. Sometime is hard to distinguish tax avoidance and tax evasion even it was justifiable or not.

II. THEORY OF TAX EVASION AND TAX ADMINISTRATION

Tax evasion

Shome (2006) argues that tax evasion is an illegal act were subject to civil sanctions, not criminal sanctions. These activities may have violate the tax laws. Tax evasion creates an underground economy where transactions are not reported to avoid income tax. This practice will create an imbalance on taxable entrepreneurs' capital so it may decrease country income and destroy the macroeconomic ecosystem.

Rohatgi (2007) states that tax evasion is an intention to avoid paying taxes owed by deliberately hiding data and facts from tax authorities, and this is an illegal act. In general, taxpayers will always take advantage of opportunities to embezzle part or all of the tax payable. These are common practices among certain taxpayers because of the effect of socializing so some taxpayers could easily be influenced by other taxpayers around them.

Russo (2007) states that tax evasion is a condition where taxpayers avoid paying taxes owed without avoiding tax obligations, this is an illegal act that violates taxation regulations. This can be interpreted as evasion of part of the tax payable so it does not stand out when combined with other taxpayers. Experienced taxpayers can easily embezzle taxes because part of the Taxpayer's checking system has been understood so that several tax obligations that must be fulfilled can be immediately carried out, but this still violates taxation regulations.

Tax administration

Matthijs Alink and Victor van Kommer (2013) argue that in creating a tax system, a good government has to fulfill several elements, such as transparency, effectiveness and efficiency, participation from various parties, responsiveness, accountability, and the existence of governing laws. Tax administration is the key to implementing and enforcing tax law. In more detail, tax administration includes managing the tax system, identifying and registering taxpayers, collecting taxes, and providing services to taxpayers. The existence of tax administration is to establish voluntary public compliance in reporting and paying taxes. Voluntary tax compliance will be formed if taxpayers and tax authorities understand each other's rights and obligations.

According to Arif Achmad, Susilo Heru, and Hidayat Rustam (2016), tax administration is a recording of taxation events under the applicable Law where the mechanisms and procedures for imposition and collection of taxes have been determined based on applicable regulations. An accountant records daily transactions on an accrual basis to summary in financial reports according to events that occur. The tax imposition will calculate from the financial statements prepared by the accountant and then linked to the applicable taxation rules to calculate the tax payable. Procedures for calculating, paying, and reporting taxes are part of administration so that the purpose of tax collection can be achieved. A good procedure is easy to implement and can increase taxpayer compliance to fulfill tax obligations.

According to Nasucha (2004), there are four types of tax administration reform measurements, such as organizational structure, organizational procedures, organizational strategy, and organizational culture. Each of these measurements has a specific way such as the organizational structure to determine the roles, relationships, authorities, responsibilities of each member of the organization. Organizational procedures discuss specific processes or activities such as communication procedures and decision making. Organizational strategy determines the period needed to achieve goals, strategies are always drawn up based on organizational conditions such as opportunities, human resources, and other factors so that the organization can be one step closer to its final goal. Culture determines the value of the behavior of organizational members, in general, the organization will be assessed in advance of its members, and every decision, strategy, and even procedure in the organization will differ from one organization to another because of differences in beliefs and behavior of each member.

Relation between tax evasion and tax administration

Shome (2006) argues that an important element in tax administration is the adequacy of human resources. A clear tax policy and financing structure may help reduce tax evasion. However, without adequate resources and tax administration mechanisms will not generate expected national income and economic growth.

According to Mardiasmo (2009), taxpayers who trying or deliberately violate laws and regulations to reducing the tax burden is tax evasion. Good regulation has to be supported by good administration so the regulations can be implemented optimally. The level of tax evasion practice is based on how well the country's tax administration is.

According to Permatasari (2013), that injustice in the tax administration system will increase tax evasion and also reduce the level of taxpayer compliance in fulfilling their tax obligations. Justice is always upheld in every country, but it is not easy to achieve justice. The government must thoroughly review and consider any risks when a new regulation is declared.

III. ANALYTICAL REVIEW AND DISCUSSION

3.1. Research Methodology

This research is a qualitative research. Based on Soerjono Soekanto and Sri Mamudji (2010) paper, qualitative research has a descriptive basis for understanding a phenomenon more deeply. Qualitative research are used as a theoretical basis as guide in focusing the research, and highlighting the proces and meanings that contained in these phenomena

The method of collecting discussion or research material collection technique used by the author in this qualitative research is a combination of case and historical studies. Researchers use a combined method in order to explain a phenomenon with more detail and analytical by collecting data as distinct as possible, which shows the importance of the explicit and detail of the data under study. In qualitative research, the more explicit, thorough, and extracted the data obtained, it can be said that the better the quality of the research.

This case study research method will examine more particular case or phenomenon in society which is carried out in depth to study the background, circumstances, and interactions that occurred. Case studies are carry out in a single system which can be in the form like a program, activity, event, or a group of individuals who exist in certain circumstances or conditions. Because it specifically examines a particular thing or system, case study research is not concern to to draw out a conclusions on the phenomenon of a particular population or group but is specific to the event or phenomenon that being studied.

The next research method is the historical method, which is research that focuses on past events and reconstructs the past with data sources or historical witnesses that still exist today. The data sources can be obtained from various historical records, artifacts, verbal reports, as well as living witnesses that can be justified for the truth of their evidence. Because it examines past events, the characteristic of historical research is time in which the phenomenon is seen as development or change based on shifting time.

3.2. Analysis and Discussion

Taxes are the main sources of country revenue to finance country expenditures. In general, tax consists of 5 (five) components, that are Income Tax (PPh), Value Added Tax (PPN) and Value Added Tax on Luxury Goods (PPNBM), Customs and Import Duty, Land and Property Tax for Forestry and Plantation sectors. Tax collection needs to be closely monitored by the government so that regulations are issued starting from the Law to implementing regulations and detailed explanations. The ultimate goal of the Government legally is maximum tax collection and following applicable regulations. To achieve these goals, a tax collection and withholding system were created, such as Income Tax Article 23, Income Tax Article 21, VAT, etc. Implementation instructions and technical instructions are part of the administration.

Good and reliable administration can speed up the work process and at the same time minimize the risks that exist and can collect data for decision making. This is happening in Indonesia, there is a change in the VAT administration, which previously issued a manual tax invoice (Faktur Pajak) and was changed to the Efaktur application in 2016 ago. This application continues to be developed to be more practical to use and at the same time, the Directorate General of Taxes (Direktorat Jenderal Pajak) can monitor taxation data and avoid the "sale and purchase of tax invoices" that used to occur frequently. This transaction is an illegal act that will be subject to tax penalties. However, this update has increase country revenue which is quite high, below is the data on domestic tax revenues based on the Central Statistics Agency (Badan Pusat Statistik).

Table 1.
Realization of Country Revenue
2015 to 2019
(in billion Rupiah)

Country Revenue	2015	2016	2017	2018	2019
Domestic tax					
Income tax	602.308,13	666.212,40	646.793,50	749.977,00	818.564,90
Value-added tax	423.710,82	412.213,50	480.724,60	537.267,90	592.790,00
Property tax	29.250,05	19.443,20	16.770,30	19.444,90	18.864,60
Fees for Acquisition of Rights to Land and Buildings	00,30,00	00,50,00	01,20,00	-	-
Custom	144.641,30	143.525,00	153.288,10	159.588,60	165.760,00
Other Taxes	5.568,30	8.104,90	6.738,50	6.629,50	7.314,30

Source: www.bps.go.id

The amendment actions that have been taken by the government can be considered appropriate because there have been significant changes from 2016 to 2019, as the table above presented that there is an increase in Value Added Tax of 16.62% in 2017, 11.76% in 2018, and 10,33% in 2019. Since then, the Government has

continued to carry out tax reforms until now, and now there is a website www.djponline.pajak.go.id to make it easier for taxpayers to fulfill their tax obligations.

There is a new application introduced by the Directorate General of Taxes recently is Ebuspot Income Tax Article 23 and version 3.0 of the E-faktur application, which oblige qualified taxpayers to immediately use these two applications. The presence of these two applications aims to facilitate taxpayers in fulfilling their tax obligations because they have been added a few certain features so taxpayers could speed up while processing data, data input, and tax reporting. This can simultaneously track down taxpayers who report their taxes not under actual conditions because the new system has linked data from several government agencies so that several taxpayers may in the list to be sent a letter of clarification from the tax office.

The current system is not sufficient to prevent tax evasion by taxpayers. However, with this system at least tax evasion is not as easy as in the past, which was not yet systematic. In the past, there was no data exchange between government organizations, and data from government organizations was considered not complete and accurate so that this became an opportunity for several taxpayers to evade taxes by reporting partially or not reporting at all even though the income was quite large. Currently, after the existence of the Electronic Identity Card (EKTP), which can slowly connect all EKTP holder data in just one check, it will be very useful to prevent tax evasion. Indonesia can learn from other countries such as Singapore, where Singapore has big data on its citizens. Indeed, it cannot be compared between the two countries because of differences in culture, race, area, and others, but there are several things we can learn from Singapore such as building an easier tax system.

Good and reliable tax administration will automatically reduce or eliminate the opportunity for tax evasion. The system that has been built and also have the "Big Data", Directorate General of Taxes now needs is sufficient and reliable human resources. Based on table 1 above regarding tax revenue based on Central Statistics Agency, it can be concluded that country revenue from 2016 to 2019 tends to increase, this can be assured that tax reforms can increase country revenues and can slowly prevent tax evasion. Missing opportunities for tax evasion can be evidenced by the regular increase in-country revenue.

IV. CONCLUSIONS

A modern developed country always must be paired with it good administration and public service. It was not an easy task for the government since Indonesia is a large island archipelago country and world top 4 in population number with multi local culture. The country must slowly abandon their manual and offline system for upgrade digital, electronic and online. Author believe with this conclusion will help official to supervise the administration more efficient and effective and help country to equalize each local area public service.

Tax evasion already a common activity that performed by global entrepreneur. It maybe sometimes justifiable and not, the government must concern to minimize the activity with the optimum and efficient cost. The country needs a good and reliable tax administration in order to achieve the desired objectives. The digitalization tax system needs to be considered and developed by the Government in designing a tax administration system in line with tax reform. A good and reliable system can prevent tax evasion because the data has been obtained and monitored by the Directorate General of Taxes. The tax system can improve inflow of the investment so that it can increase country revenues.

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