

DIGITALIZATION OF TAXATION: POTENTIAL FOR TAX AVOIDANCE AND INCREASE IN TAXPAYERS

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ABSTRACT

Tax digitalization has become a key trend in government efforts to improve tax efficiency, transparency and compliance. However, along with these technological advances, there is also new potential for more sophisticated and complex tax avoidance practices. This research aims to investigate the impact of tax digitalization on the potential for tax avoidance in the era of rapidly developing information technology. This research uses a qualitative approach with descriptive methods. The results of the discussion show that digitalization of taxation carries the risk of increasing tax evasion caused by the shadow economy, especially in the context of an economic structure that is moving towards digital. Factors such as high taxes and compliance costs can drive the emergence of the shadow economy. Even though digitalization is supposed to simplify the taxation process, sophistication in technology is also used by shadow economy actors to avoid taxes. Global challenges arise from international digital companies and the complexity of taxing cross-border transactions. In a positive context, digitalization provides efficiency and openness in registration, reporting, data access, bill management, increased data accuracy and taxpayer compliance. Technology integration creates an environment that supports increased taxpayer compliance, provides better accessibility of tax information, and motivates stronger compliance among taxpayers..

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1. INTRODUCTION

Rapid technological developments have opened up great opportunities for Indonesia to encourage national development evenly across all regions. As a developing country, Indonesia continues to strive to improve the welfare and prosperity of its people through sustainable national development (Lohonauman, 2016). Modern facilities that continue to be developed in various regions can be utilized by the community to improve their standard of living. National development is the main indicator for measuring a country's progress, and Indonesia is actively involved in this effort (Suparmoko, 2020).

Development in a country is not only influenced by natural wealth, but also by financial contributions from the people. Taxes are the main source of funds used to support development programs (Janges & Pangestu, 2021). Along with technological developments, the tax system in Indonesia is also undergoing transformation. The application of technology in tax administration allows the fund collection process to be more efficient and transparent. The public can more easily understand and fulfill their obligations, while the government can manage tax funds more effectively to support overall national development (Padang, 2021). With the synergy between technological advances and good tax management, Indonesia has the potential to achieve its national development goals more quickly and efficiently.

Law Number 16 of 2009 concerning General Provisions and Procedures for Taxation in Indonesia provides a clear definition of tax as a mandatory contribution to the state imposed on individuals or entities (Subarkah & Dewi, 2017). Taxes are regulated as a coercive obligation and are regulated by law, without exclusive reciprocal services. Its function is directed at meeting the country's needs as much as possible, with the main aim of increasing people's prosperity (Satya & Dewi, 2010).

One type of tax regulated in this law is income tax. This tax is imposed on taxpayers who have a fixed income during a certain tax year (Tiraada, 2013). This principle is emphasized as a government step to ensure that every individual or entity that earns income, whether from work, business or other forms, contributes proportionally to supporting national development and the welfare of society as a whole.

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Thus, Law Number 16 of 2009 forms a strong legal foundation to ensure taxpayer compliance in making a positive contribution to state development and people's welfare (Akbar et al, 2019).

Top of Form

Tax digitalization has become a hot topic in recent years. Tax digitalization is an innovation in tax services that provides facilities in the form of online-based tax service applications or internet networks to taxpayers. by the government with ease of use, such as in reporting and paying taxes (Tambun et al, 2020). Tax digitalization aims to provide better reporting services to taxpayers when paying taxes. The Directorate General of Taxes has made updates to the tax system in Indonesia which has now changed from manual to digitalization based on e-systems or online which is also called digitalization, such as E-Registration, E-SPT, E-Filing, and E-Billing are examples of electronic services used by taxpayers (Sulistiyorini et al, 2020).

The Indonesian Directorate General of Taxes (DJP) continues to take proactive steps in improving the efficiency of tax administration through updating the core system known as PSIAP (Tax Administration Core System Update). By developing a Commercial Off-The-Shelf (COTS) based information system, DJP is strengthening its technological infrastructure to provide better services to taxpayers (Saifudin & Rahmawati, 2022). PSIAP is an important foundation in simplifying and improving the process of implementing tax obligations, making the taxpayer experience more effective and efficient. This initiative reflects DJP's commitment to continue adapting to technological developments in order to improve tax services and compliance in Indonesia (Tobing, 2022).

However, on the other hand, the convenience provided by this reform of the tax system also raises concerns regarding the potential for increasing tax avoidance practices. Along with the growth of technology, especially in the digital sector, the potential for misuse of technology to cheat the tax system arises. The increasingly widespread existence of the shadow economy can also take advantage of loopholes in this system to effectively avoid tax obligations (Kartiko, 2020).

Increased reliance on technology can provide opportunities for unintentional parties to get around tax regulations. The use of digital methods in tax reporting and tax administration must be accompanied by strong steps to prevent and detect potential misuse (Rezky, 2020). Therefore, there needs to be a balance between providing convenience to taxpayers and maintaining the integrity and fairness of the tax system. The government and related institutions must proactively develop effective supervision and control strategies to minimize the risk of tax avoidance in the context of this digital transformation (Sari, 2017).

This research aims to explore the impact of tax digitalization on the potential for tax avoidance in Indonesia, with a focus on identifying tax avoidance strategies that may emerge along with advances in digital technology. The benefits of this research involve the government, tax institutions and society as a whole. Governments can design more responsive and efficient policies based on research findings, while tax agencies can use them to improve oversight and reduce exploitation loopholes. For society, it is hoped that this research can contribute to maintaining fairness in the taxation system and optimizing resources for sustainable national development. Thus, this research becomes the basis for formulating more adaptive and effective tax policies in the digital era.

2. METHOD

This research uses a qualitative approach with descriptive methods. Data collection techniques using literature studies using previous research related to the problem to be studied (Anggito & Setiawan, 2018). A literature review is a search in which the research subject is extracted from a number of documents or library materials such as books, scientific journals and research supporting documents. The author uses previous studies that are relevant to this paper to critically examine knowledge about ideas and scientific findings by drawing from various literature related to the challenges and opportunities of democracy in the digital era and their implications for constitutional law. The data analysis method was carried out descriptively qualitatively, according to Milles and Hubberman's interactive model which consists of 3 stages, namely the data reduction stage, data testing or analysis, and the conclusion drawing and verification stage.

3. RESULTS AND DISCUSSION

The digitalization of taxation carries the risk of increasing tax avoidance along with the size of the shadow economy. Shadow economy, which refers to economic activities that are not officially reported to

the government or tax agencies, may increasingly develop in the context of changes in economic structure towards digitalization. The increasing dominance of the information sector allows economic transactions to be conducted online without an official trail, creating loopholes that can be exploited for more sophisticated tax avoidance practices. In the long term, the potential for the development of this shadow economy to have a negative impact on tax revenues requires a proactive strategy from the government to mitigate this risk through strict regulations, effective supervision, and public education regarding tax obligations in the digital era (Lukito & Adi, 2023).

The emergence of a shadow economy can be caused by various factors, one of which is high tax rates. When tax levels reach significant levels or the tax system becomes complex, this can encourage individuals and companies to look for ways to avoid or reduce their tax obligations. High taxes are often seen as a heavy financial burden, encouraging economic actors to look for loopholes in the tax system to reduce this burden. A complex tax system can also create uncertainty and high administrative costs, encouraging certain parties to choose alternative routes that are not detected by official tax institutions. Therefore, reviewing and simplifying tax policies can be an important step in preventing the emergence of a shadow economy, which in turn can support integrity and fairness in the tax system as a whole (Paramita, 2020).

Apart from the high tax factor, the emergence of a shadow economy can also be caused by high compliance costs. At times, the costs and complications associated with complying with all tax regulations and requirements can be a burden for some individuals or businesses. Complex administrative processes and complicated procedures for complying with tax regulations can make economic actors choose simpler alternative paths, even though they are not always legal. High compliance costs include not only the tax payments themselves but also the effort and resources required to understand, monitor, and properly report tax obligations. Therefore, in an effort to reduce the shadow economy, the government needs to consider simplifying tax procedures and reducing administrative burdens to create incentives that encourage better tax compliance (Nizar & Purnomo, 2011).

Apart from factors such as high taxes and high compliance costs, digitalization of taxation, which should be a solution to simplify the tax reporting and payment process, can actually be exploited by shadow economy actors to avoid taxes. Ironically, the sophistication of digital technology, such as the use of encryption technology and cryptocurrency, provides opportunities for shadow economy actors to hide their assets and transactions more effectively. Utilization of encryption technology can be used to secure communications and financial data without being detected by official tax institutions. Meanwhile, the use of cryptocurrency provides a high level of anonymity, making it easier for shadow economy actors to carry out transactions without leaving traces that can be tracked by tax authorities.

The existence of international digital companies operating in multiple jurisdictions creates significant challenges in determining where taxes must be paid. The existence of cross-border digital transactions that are not limited by jurisdictional and regional boundaries gives rise to complexity in taxation, where tax authorities have difficulty regulating the taxation rights of business entities that operate globally.

This digital transaction model increasingly questions the concept of taxation which generally requires physical presence as a condition for establishing a Permanent Business Entity (BUT), as regulated in many international tax treaties. In the framework of digital transactions, physical presence is often invisible, making it difficult to establish tax limitations and responsibilities. Therefore, the emergence of significant global tax challenges, where digital entities can operate without a clear physical presence, provides new complexities in determining tax obligations and revenue allocation between countries (Yap & Mulyani, 2022).

Current conditions make it increasingly difficult to identify tax nexus or connection factors and the tax jurisdiction of the country of origin, especially in the context of digital businesses operating in various jurisdictions without a clear physical presence. The concept of physical presence, which is generally the basis for income attribution in international tax treaties, is becoming increasingly irrelevant in this digital era. Technological development and the digitalization of trade have created complex virtual markets, where business entities can generate income without carrying out conventional economic activities or establishing a significant physical presence in a country (Muvidah & Andriani, 2022).

The digitalization of trade also reduces the capacity of tax authorities or tax authorities to collect taxes from virtual market transactions and income. Existing tax regulations still face challenges in aligning and accommodating the rapidly developing dynamics of digital business. The gap between technological

developments and regulatory capabilities causes difficulties in addressing various problems related to the taxation of cross-border digital transactions (Putrawan, 2018). Therefore, there is an urgent need to formulate an international tax regulatory framework that can provide effective answers to the complexity and dynamics of digital business, while providing solutions to income attribution in increasingly complex virtual markets.

However, this does not mean that digitalization of taxation only brings problems. In fact, digitalization also opens up several benefits for taxpayers, the first of which is efficiency and openness (E-Registration). E-Registration, as part of tax digitalization, provides major benefits for taxpayers through increasing efficiency and openness in the tax registration process. Traditionally, tax registration involves an in-person visit to the tax office, which can be time-consuming and difficult for taxpayers. With E-Registration, taxpayers can register electronically without needing to be physically present. This opens up accessibility for those who may be located far from the tax office or have limited mobility. In addition, the E-Registration system provides open information regarding registration requirements and procedures, making it easier for taxpayers to understand the necessary steps. This not only minimizes the potential for errors in the registration process, but also makes it easier for taxpayers to be more proactive and understand their tax obligations. Apart from the taxpayer's perspective, E-Registration also provides benefits for tax institutions in increasing administrative efficiency. Registration data collected electronically allows for faster and more accurate processing, reducing the risk of manual error. Thus, E-Registration creates a more efficient and open environment in the initial stages of tax registration, strengthening the foundation for better data management throughout the tax digitalization system.

Second, ease of reporting (E-SPT and E-Filing). E-SPT (Electronic Transaction Processing System) and E-Filing (Electronic Filing) are important components in the digitalization of taxation by providing significant benefits for taxpayers. The E-SPT system simplifies the tax reporting process by providing electronic forms that can be filled in by taxpayers. This helps reduce the complexity of tax administration, because taxpayers no longer need to take care of physical forms and can access them at any time via digital platforms. In addition, E-Filing allows taxpayers to file tax reports online, eliminating dependence on time-consuming manual processes. The main advantage of E-SPT and E-Filing is efficiency in data collection and processing. Taxpayers can fill out tax forms and submit reports electronically, which speeds up the process of data verification and analysis by tax agencies. The use of technology in reporting also reduces the risk of human error and provides a higher level of accuracy in tax data. Thus, E-SPT and E-Filing have a positive impact not only on taxpayers in managing their tax obligations, but also on the efficiency and accuracy of tax institutions in managing tax information as a whole.

Third, data accessibility (E-Filing). E-Filing plays a key role in bringing easy access and transparency to tax data for taxpayers. By allowing taxpayers to submit tax reports electronically, E-Filing provides significant information disclosure. Taxpayers can access forms and guidelines online, making the entire tax reporting process more transparent and easily accessible. This ease of access strengthens taxpayer participation in carrying out their tax obligations, reducing administrative barriers that may make some individuals or businesses reluctant or difficult to comply with tax regulations. Furthermore, E-Filing not only makes it easier for taxpayers to manage tax documents, but also provides flexibility in monitoring and verifying their data. Taxpayers can access their tax return history online, enabling more proactive monitoring of reporting status and tax obligations. With this system, the process of conveying information becomes more efficient and effective, creating an environment that supports better tax compliance. Therefore, E-Filing is not only a tool to simplify tax administration, but also a means of increasing transparency and taxpayer involvement in carrying out their tax responsibilities effectively.

Fourth, More Efficient Bill Management (E-Billing). E-Billing or electronic billing system is a crucial element in digitizing taxation by providing a positive impact on the management of tax bills. By switching to E-Billing, the process of sending and paying tax bills becomes more efficient and automated. Taxpayers can receive and pay bills electronically through online platforms, eliminating the need for manual processes and physical processing that tend to be time-consuming. This not only increases efficiency, but also reduces the risk of late payments which could result in fines or tax sanctions. Apart from efficiency, E-Billing also provides benefits in managing and monitoring tax payments. Taxpayers can access their payment history online, ensuring that all tax obligations have been paid and providing clarity regarding the status of their payments. Furthermore, this system provides flexibility for taxpayers to choose the payment method that is most convenient for them, such as electronic transfer or payment via credit card.

With E-Billing, the tax payment process becomes more open, easy to access, and supports taxpayers' financial management more effectively in this digital era.

Fifth, related to increasing data accuracy through tax digitalization, summarizing the significant benefits in managing and analyzing taxpayer financial information. The integration of technology in all tax digitization systems, including E-Registration, E-SPT, E-Filing and E-Billing, has overall had a positive impact on the accuracy of tax data. Process automation and electronic processing reduce the risk of human error that may arise during manual data collection and processing. Through E-Filing, for example, taxpayers can fill out forms electronically, reducing the potential for input and calculation errors. The result is more accurate and reliable data, which provides a strong information base for tax agencies and taxpayers to make informed decisions. This increased accuracy not only provides administrative benefits, but also strengthens the integrity of the entire tax system. With higher data accuracy, the risk of errors in determining tax obligations and income allocation can be minimized, creating a more reliable and efficient environment in tax revenue and management.

Sixth, which highlights increasing taxpayer compliance through tax digitalization, reflects the positive impact of technology integration in the tax administration process. Tax digitalization creates an environment that supports increasing levels of taxpayer compliance, by simplifying procedures, increasing transparency and providing greater accessibility to tax information. Through E-Registration, E-SPT, E-Filing, and E-Billing, taxpayers can access and manage their tax information more efficiently, minimizing the risk of errors that may arise due to misunderstanding or confusion regarding tax obligations. In addition, the easy access to tax information provided by digitalization provides an opportunity for taxpayers to better understand their obligations, including tax reporting and payment deadlines. By providing clarity and ease of access, digitalization motivates taxpayers to be more proactive in complying with tax regulations. Therefore, the application of technology in taxation not only increases administrative efficiency, but also creates a stronger culture of compliance among taxpayers, supporting the achievement of optimal tax revenue goals and sustainable state financial development.

4. CONCLUSION

The digitalization of taxation, through initiatives such as E-Registration, E-SPT, E-Filing, and E-Billing, brings a number of significant benefits to taxpayers and tax institutions. The application of technology in tax administration increases efficiency, transparency and accuracy in collecting and managing tax data. Taxpayers get benefits in the form of ease in registering, reporting and paying taxes, which in turn can increase compliance. However, there are also challenges related to the digitalization of taxation, such as the potential for an increase in the shadow economy and the risk of misuse of technology for tax avoidance. The ability of tax institutions to cope with the rapidly developing dynamics of digital business is also a challenge in itself. Therefore, strategic steps need to be taken, such as increasing adaptive regulations, strengthening supervision, and public education, to optimize the benefits of tax digitalization while overcoming emerging risks. Thus, digitalization of taxation can be the main pillar in achieving optimal tax revenue goals, increasing taxpayer compliance, and supporting sustainable state financial development.

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