Journal of Entrepreneurship and Financial Technology
Vol 2, Number 1 2023
EISSN: 2988-4012/ Pp:37-43

ANALYSIS OF TAX AVOIDANCE AND TAX EVASION FORMS
(Study on Taxpayers in the Trade Sector in Makassar City)

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Abstract

In the trade sector, tax avoidance is developing into a complex and significant problem. The purpose of this study is to investigate the tax avoidance methods used by taxpayers working in the trade sector. This study analyzes various strategies and practices used by businesses to lower tax liabilities, including the use of tax avoidance and tax evasion methods. Data was collected through in-depth interviews with taxpayers from several trade subsectors, as well as document reviews and tax compliance data. Qualitative research methods were used to understand the reasons behind tax avoidance behavior and its impact on the state budget.The study shows that many taxpayers in the trade sector use tax avoidance methods to reduce fiscal burden. One way to avoid taxes is to use legal loopholes and tax incentives provided by the government to optimize business structures and reduce legitimate tax liabilities. Conversely, some businesses deliberately ignore tax obligations illegally. Tax avoidance in the trade sector has several consequences, such as a decrease in government revenue, which can hinder development and public services. In addition, this study shows how important awareness of corporate social responsibility and ethics is in the tax context. Efforts to improve and reform tax policies in the trade sector should consider the difficulties and opportunities to increase tax compliance and minimize tax evasion that is detrimental to society as a whole. So, to solve the problem of tax evasion in the trade sector, there needs to be a holistic approach that involves active participation from all parties involved, including the government, taxpayers, and society. Appropriate measures will bring sustainable economic and social progress through a fairer, more transparent and equitable tax system.

Keywords: *Tax; Evasion; Avoidance.*

A. INTRODUCTION

One of the country's main fiscal tools is tax, which serves to raise money to finance various government activities and infrastructure development. Taxes have become the main source of state revenue in Indonesia and contribute significantly to the State Budget (APBN). In 2022, taxes have contributed 81.7% of the overall state budget, with a contribution of IDR 1,510 Trillion out of a total state budget of IDR 1,846 Trillion. ("V-1-Final-Publication-APBN-KiTa-Edition-January-2023," n.d.).. As the largest contributor to the state budget, taxes are essential for maintaining economic stability and the sustainability of the country's development. The government can collect funds from citizens and business entities to finance various important public programs and projects through taxation mechanisms.

To avoid taxes, individual and corporate taxpayers use legitimate tax planning actions and strategies to reduce their tax liability by using loopholes or incentives in the tax system. While these actions are usually outside the bounds of the law, the consequences of these actions can include significant loss of state revenue. Meanwhile, tax evasion is an unlawful act and undermines the fairness principle of the tax system. It also costs the state financially by hiding information or providing reports that do not match the actual circumstances to the Directorate General of Taxes.

In the area of trade, tax avoidance can be done in various ways, such as unfair transfer pricing adjustments or shifting profits between countries. In addition, countries with low tax rates or countries that offer special tax incentives are also often used to reduce the tax burden. Tax avoidance in the trade sector can cause unfairness in the tax system and reduce state revenue. As some parties manage to reduce their tax obligations by legal means but take advantage of legal loopholes, citizens who are compliant in paying taxes may feel unfair.

This research journal will investigate tax avoidance practices within the trade sector. The purpose of this research is to gain an understanding of the tax avoidance mechanisms used in the context of trade, evaluate how this impacts state revenue, and find potential solutions to this problem. The results of the research are expected to assist the government and various stakeholders in their efforts to improve tax compliance and build a more efficient and fair trade taxation system.

1.1 Tax avoidance

The company's efforts to save its tax burden can be carried out in a legal way, namely by tax avoidance. The definition of tax avoidance according to Lismiyati & Herliansyah (2021), is an action taken by a company in reducing its tax burden by using legal means because it does not violate applicable tax regulations, namely by using or maximizing the maximum allowable deductions and various weaknesses that exist.(Permatasari, Hasanah, and Khairunnisa 2022)

1.2 Tax evasion

According to Mardiasmo (2011) tax evasion is an attempt by taxpayers to reduce the tax burden in a way that is not legal or violates the law. In this case, taxpayers ignore the formal provisions of taxation that are their obligations, submit documents, or fill in data incompletely and incorrectly. (Accounting Faculty of Economics and Business et al. 2017)

B. RESEARCH METHODS

Type of Research

The focus of this study is to find factors that influence tax avoidance and tax evasion practices in the trade sector. The main objective of this research is to explore the relationship between economic, social and legal factors and the way companies avoid or evade taxes. Relevant data on taxpayers in the trade sector will be analyzed through qualitative research.

This study will look at how tax incentives, tax rates, and economic growth rates impact the tendency of companies to avoid or evade taxes. The research will also analyze social factors such as social norms and ethical perceptions regarding tax compliance. In addition, legal elements will be examined to gain an understanding of how the tax regulatory framework affects business behavior. These factors will be identified and analyzed to gain an understanding of the behavioral patterns and motivations behind tax avoidance and evasion in the trade sector. The research will hopefully inform stakeholders, including governments and regulators, how to address the issues of tax avoidance and tax evasion more efficiently. The study can also help create policies and strategies for cleaner and fairer fulfillment of the trade sector's tax obligations.

Data Type and Data Source

In this study, the type of data used is qualitative data. This research uses information obtained from interviews with research subjects, namely taxpayers with a trade business field classification, who provide descriptive explanations or perspectives on tax avoidance actions in the form of avoiding or evading taxes. Researchers collect data directly from research subjects, namely taxpayers engaged in the trade of building materials, used cars, services, and retail trade, especially those who have been confirmed as Taxable Entrepreneurs.

Data Collection Technique

The data collection methods used in this study are:

1. In-depth Interviews: Involves direct meetings between researchers and taxpayers to

obtain their views, information, and experiences related to the research topic.

2. Document Analysis: This includes the examination and analysis of written texts, official documents, newspapers, books, notes, and other documents related to the research topic.
3. Case Study: A method of studying one or more related cases thoroughly to understand their context and details.

Analysis Method

The data analysis methods and processes used in the research include:

1. Thematic Analysis: A systematic examination of data to identify and analyze key patterns and themes emerging from the data.
2. Narrative Analysis: Studying the stories and narratives of research participants to find meaning and patterns.
3. Content Analysis: Content analysis of documents or texts to find keywords, phrases, or categories related to the research questions.

C. RESEARCH RESULTS AND DISCUSSION

Research Results

Definition of Tax Avoidance

Tax avoidance is an action taken by taxpayers using weaknesses in tax laws to avoid or reduce tax obligations. It is legal because it does not violate tax provisions, but it can have an impact on tax revenue. The tax system, knowledge and awareness about taxation, and other factors such as profits and sales growth are some of the factors that affect tax avoidance. To reduce tax evasion, you can increase knowledge about taxation, increase transparency and accountability, and improve tax law enforcement and supervision.

Definition of Tax Evasion

The purpose of tax evasion is to reduce the amount of tax that should be paid. Tax evasion can be in the form of not reporting actual data to the Directorate General of Taxes, not registering to obtain a Taxpayer Identification Number (NPWP), misusing or using NPWP or PKP confirmation without rights, refusing inspection, and others. One way that cannot be morally justified to avoid taxes is tax evasion.

Tax Avoidance Indicator

Some indicators of tax avoidance in the trade sector can be extracted from several actions taken by business actors. The following are some indicators of tax avoidance in the trade sector:

Transfer Pricing: Transfer pricing is a method where a company has subsidiaries or branches in different countries by manipulating the transfer prices of goods and services between these entities. The goal is to move to a country with a lower tax rate, thereby reducing the company's overall tax burden. Unfair transfer pricing practices can result in injustice and losses for countries with higher tax rates. Transfer pricing itself is a tax practice that is often practiced by multinational companies. Transactions between companies with special relationships are carried out between two or more companies located in the same country or in different countries. Basically, transfer pricing practice itself is often connoted with bad things called "profit shifting". Meanwhile, profitability is the ability of a company to earn profit during a certain period in the form of the level of sales, assets and share capital. Biassanya profitability is assessed in several ways depending on profit or assets(Cahyo and Iswanaji, t.t.).

Use of *Tax Haven:* is a country or jurisdiction with a low or even no tax rate. Business entities or individuals may use tax havens to store assets, establish subsidiaries, or conduct transactions to avoid being taxed in their home countries. The goal is to shift profits to a place with a lighter tax rate. The practices involved in the use of tax havens involve practices such as the establishment of shell companies, money laundering, and nontransparent funding. Companies may keep their funds in Tax Haven countries or use offshore legal entities to avoid taxes.

Utilization of Legal Loopholes:

Taxpayers use loopholes or gaps in tax laws to optimize their corporate structure. This is done by finding ways to legitimately reduce tax liabilities, such as taking advantage of tax incentives or relaxation of rules that can provide fiscal benefits. An example that occurs is by splitting the turnover to affiliated parties so that it does not reach 4.8M so that it is not required to register as a Taxable Entrepreneur.

Money Laundering and Asset Concealment:

The trick of manipulating financial data where this practice involves manipulating the company's financial data in such a way as to change or falsify information related to financial transactions. This is done to hide traces of actual transactions and create a false picture of the company's finances. Another way is by manipulating reporting where this practice involves engineering financial reports submitted to the Directorate General of Taxes or other interested parties. Manipulated reporting can include inflating costs, reducing income, or other manipulations aimed at reducing the amount of tax to be paid. As for asset concealment, this practice involves attempts to hide assets or wealth obtained from the proceeds of illegal activities or unauthorized acts. Asset concealment can be done through transferring funds to unrelated accounts, purchasing assets on behalf of third parties, or using shell companies to hide asset ownership.

Tax Evasion Indicator

The characteristics that indicate the existence of tax evasion practices by companies or individuals, which are used by the Directorate General of Taxes to identify potential tax evasion cases, include:

Making purchases with invoice 000, while the buyer has a Taxpayer Identification Number so that the data used is the Population Identification Number. This is done to hide the transaction traces from the tax authorities, with the hope that the factual amount of sales will not be known;

Taxpayers registered as taxable entrepreneurs issue tax invoices and collect VAT but do not report the VAT Periodic Tax Return (SPT), so it is not known whether there is underpaid, nil, or overpaid VAT;

The use of tax invoices that do not match the actual transaction, or can be called fictitious tax invoices. The aim is to reduce the amount of VAT that must be paid to the state treasury;

Cost Misallocation: To reduce the income reported in the balance sheet and income statement in order to lower the tax payable, companies misallocate costs, apply costs not in accordance with the 3M principle, or even inflate expenses in their business transactions, such as management or service fees that do not match the original value of the service. These methods allow them to overstate costs to reduce taxable income. They can avoid paying more tax by changing financial data to appear to have lower profit margins;

Not reporting actual sales: Tax evasion occurs when individuals or companies intentionally fail to report their actual sales to the tax authorities. This illegal practice allows them to understate their income and hence pay less tax than they should. They can reduce their tax liability by hiding their actual sales volume and manipulating financial records to show lower income;

Not collecting VAT on the use of marketing services: In used vehicle selling companies that have been registered as Taxable Entrepreneurs, do not collect VAT on marketing services carried out when there is cooperation with *leasing* parties;

Preparation of two different financial statements: This method involves presenting two different versions of financial statements to tax authorities and other relevant parties. In one financial statement, the company will present accurate and appropriate information about the transactions that occurred in reality and even the financial statements have been *audited* by KAP. The information in this financial report can be used for internal purposes and can also be accessed by the general public, for the purpose of getting investors, applying for credit to banks, and others. But the second different report will be made in a way that reduces income or inflates expenses which means that taxable income is smaller, or manipulates certain items which will ultimately minimize profits, where profits are the basis for calculating income tax. Audit quality cannot significantly moderate the negative effect of institutional ownership on tax avoidance so that there are still companies that have been audited by KAP Non The Big Four but still show efforts that lead to tax avoidance in the company.(Ramdiani, Gunarsih, and Lestari 2023).

Not reporting assets: Tax evasion occurs when individuals or companies intentionally do not report all their income or assets to the tax authorities. One common way to avoid taxes is to hide assets. Hidden assets can include offshore accounts, unreported sources of income, or concealed ownership of property. By keeping these assets secret, taxpayers attempt to lower their taxable income.

Motives for Tax Avoidance and Tax Evasion

Motives, Reasons, and Causes of Tax Avoidance by understanding the Complexity of Noncompliance: Tax evasion, the deliberate act of avoiding or not paying taxes, is a familiar problem that exists in various forms around the world. Despite the legal and ethical obligation to contribute to the state, some taxpayers engage in these practices to reduce or eliminate their tax liability. This section discusses the various motives, reasons, and causes that drive taxpayers to evade taxes, and explains the complexities of this behavior.

1. Financial Incentives: One of the main motivators for tax avoidance is the desire to retain more income and wealth. High tax rates and complex tax structures can cause individuals and businesses to look for loopholes or engage in illegal activities to minimize their tax burden. The prospect of significant savings can be tempting, especially when taxpayers feel that government spending or services do not match their preferences.
2. Complexity of Tax Regulations: The complex nature of tax laws and regulations can contribute to tax avoidance. The large number of tax rules and continuous changes can be confusing for taxpayers, making compliance difficult and increasing the likelihood of unintentional errors or omissions. As a result, some individuals and companies may resort to avoidance as an alternative to dealing with such complexities.
3. Lack of Trust: Lack of trust in the government's ability to use tax revenues effectively can encourage tax evasion. When taxpayers perceive corruption, waste, or lack of transparency in public finances, they may be less motivated to fulfill their tax obligations. Doubts about the equitable distribution of tax revenues can erode trust and encourage tax evasion.
4. Inadequate Law Enforcement: Weak tax enforcement mechanisms can create an environment conducive to tax evasion. When tax authorities are under-resourced or fail to effectively prosecute tax evaders, individuals and companies may view tax evasion as a low-risk endeavor. Better enforcement and harsher penalties for tax evaders can serve as a deterrent.
5. Social and Cultural Norms: In some societies, tax avoidance may be tacitly accepted or even considered a survival strategy. Social norms that prioritize personal or family interests over collective responsibilities may influence taxpayers' attitudes towards tax compliance.
6. Globalization and Overseas Opportunities: With the ease of global transactions and the existence of tax havens, some wealthy individuals and multinational corporations exploit international financial structures to shelter income and assets from tax. The

attractiveness of lower tax jurisdictions attracts tax evaders, leading to revenue loss for their home countries.

7. Perception of Unfair Taxation: When taxpayers perceive the tax system to be unfair or unequal, they may be more likely to avoid taxes as a form of protest. This perception can stem from the unequal distribution of the tax burden, preferential treatment for certain groups, or the belief that wealthy individuals and companies receive undue tax benefits. The results of research by Spiegel (2017) and Pratiwi and Ronny (2019) prove that tax fairness has a negative influence on tax evasion. If the level of tax justice is higher, the possibility of taxpayers committing tax evasion is lower.(Scientific Economics, t.t., 8).
8. Lack of Civic Awareness: A declining sense of civic duty and social responsibility may contribute to tax evasion. In a society where individualism is highly emphasized, some taxpayers may prioritize personal gain over contributing to the common good.
9. Psychological Factors: Human behavior and psychological biases can play a role in tax evasion. Some people may rationalize tax evasion as a victimless crime or believe that their tax evasion will not have a significant impact on overall tax revenue.

D. CONCLUSIONS AND SUGGESTIONS

Conclusion

Tax evasion is an issue that has many phases and is influenced by many motives, reasons and causes. Public attitudes, trust in government and global opportunities also influence taxpayers' decisions, although financial incentives and the complexity of tax laws are major factors. Addressing tax evasion requires a holistic approach that incorporates the structural elements of the tax system as well as the underlying behavioral drivers. For the overall good of society, effective law enforcement, simplification of tax regulations, transparency, and public awareness campaigns can help foster a culture of tax compliance and ensure that the tax burden is fairly distributed.

Suggestions

The issue of tax evasion and tax avoidance is a major problem for the country, which can cause huge revenue losses and threaten the integrity of the tax system. It is imperative to increase taxpayer awareness and compliance to ensure continued development and optimal provision of public services. In order for the country not to be disadvantaged, here are some ways to prevent tax evasion and reduce tax smuggling:

1. Education and Awareness: Better tax education should be a priority. The government can conduct effective information campaigns, seminars, and training programs targeting various segments of society. In this process, it is important to explain the importance of tax contributions in development and community empowerment and provide concrete examples of how taxes are used for collective welfare.
2. Transparency and Accountability: Increased transparency in the tax system and the use of public funds is an important step towards building taxpayer trust. By giving citizens easier access to how tax funds are used, they will be more encouraged to comply with their tax obligations.
3. Simple and Fair: Strengthening a simpler and fairer tax system can reduce opportunities and incentives for tax evasion. Reducing the number and variety of tax rates and minimizing legal loopholes will help prevent tax manipulation that costs the country money.
4. Technology and E-Filing: Introducing the latest technology in tax administration, such as e-filing and e-payment, will help reduce errors and improve efficiency. Easier tax payment and reporting processes will make taxpayers more motivated to comply with their obligations.
5. Strict Law Enforcement: Strictly enforcing the law against tax offenders, both individuals and companies, is an important step to signal that tax evasion and avoidance will not be

tolerated. Appropriate penalties and clear consequences should be applied to create a deterrent effect.

6. International Collaboration: Countries should cooperate internationally to combat tax evasion by multinational corporations and wealthy individuals who use tax loopholes in different jurisdictions. Information exchange and coordination between countries will strengthen efforts to prevent the illegal transfer of wealth and income.
7. Community Empowerment: Involving the public in the tax policy formulation process can improve transparency and accountability. The active involvement of the public in monitoring the use of public funds will encourage the government to be accountable for the better use of tax funds.
8. Positive Incentives: Providing appropriate tax incentives to compliant taxpayers can also be an incentive for compliance. These incentive programs should be carefully designed to prevent abuse and tailored to the level of compliance demonstrated by the taxpayer.
9. Addressing Social Inequality: High social inequality can affect people's perception of tax liability. Improving access to education and economic opportunities for all levels of society can help reduce resistance to paying taxes.

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