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**Research Paper**

# Overview of Corporate Tax Planning, Management and Administration Exercise in Indonesia

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***ABSTRACT-****In large country, self-assessment is the most efficient and optimal way to collect tax by the government. However this method of tax collection needed high citizen self-discipline and willingness to calculate, report and pay the tax on self-satisfied condition and terms. Tax planning activity also arise within the business entity which have a more organized and skilled management as it member in order to gain higher profit and sustain the longevity of it company. This will the main concern of this paper to detect and discuss whatever there is a connection between a taxes planning with arising tax avoidance and tax evasion effort also how it connected.*

***INDEX TERMS****- tax planning, tax avoidance, tax evasion, taxation*

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## I. INTRODUCTION

In the UUD 1945, stated that the taxes are mandatory pay to government, whether the nature are voluntary or not. The nature of tax and other levies are coercive for the purposes of the State and regulated by a law. Several world figures also have the same opinion on taxes, Benjamin Franklin, the 6th US President said that in this world nothing is certain except death and taxes.

A company is an example of a legal business entity that built for generate profit. Certainty the company cannot escape or hide from its duty to pay tax and report annual income. This phenomena already regulated in Regulation of private limited type of business entity or in Indonesia we called Undang-Undang Perseroan Terbatas (PT), where every to create a new business entity must have a tax id which in Indonesia we call NPWP. In practice NPWP become the base or first terms in order to acquire other business permit.

Every NPWP holder are subjected as Indonesia taxpayer that their must fulfill their duty to report their annual income to Directorate General Tax (DGT) which is Indonesia highest tax authorities via tax service office or in Indonesia we called Kantor Pelayanan Pajak (KPP). In fact, as a taxpayer their have their basic nature to pay tax as low as possible. If can, their want there are no tax needed to be settled. Every action will be taken in order to minimize the tax from aggressive action like broke the rule and manipulate the income or the less aggressive action like exploit the loopholes in the regulation.

In Indonesia, their using self-assessment as the way to pay income tax to government annually. The taxpayer must report, calculated and pay their tax by volunteer. This kind of tax assessment will indirectly support a tax avoidance and tax evasion activity which commonly happen in Indonesia economy ecosystem. Therefore in this paper, we will review more detail how a tax planning, management and planning work in Indonesia economy ecosystem.

## II. THEORETICAL BASIS

**Tax Planning**

Planning activity is a first step in order to start a cycle of tax management. Tax Planning is always being connected to tax avoidance and tax evasion activity. Tax planning is a planning behavior in taxation in order for saving the tax expense with finding a way or a new idea or even to exploit a loopholes in tax regulation (Hoffman, 1961).

Based on Goh (2016) research paper with title effect of corporate tax avoidance on the cost of equity, stated that tax planning practice can become more complex and vast for the citizen that have more higher income. Especially a company, a legal entity that create to produce income and will be going concern, it necessary needed a neat planning in manage it financing. The most common tax planning will be done are tax avoidance planning and a tax management to do list.

**Tax Management**

Management is an effort to arrange, control, and run an organization in order to achieve a common goal for it member (Hanafi, 2012). In a company, a management is a critical and needed in order to gain profit from its business efficiently and optimal. Tax management also needed in order to keep every tax administration need to be prepared and arranged already done in the correct way and had the documentation as a supporting document.

Tax management directly connected with a tax administration. A neat and good administration always supported by a good corporate tax management. Tax management is an activity in form of action like regulator and overseer in taxation activity.

A good tax management will be minimize the risk to pay additional tax payable from wrong or omission in administration of one kind taxation. Tax management have a continuously nature, this in line that tax management have an overseer function to monitor tax administration routine activity.

**Tax Administration**

In 1991 Herbert Simon argued that administration is like two people working together to push a rock that cannot be rolled away with just one person between them. The cooperative action includes administrative activities with the aim of pushing the stone. In a company certainty needed and requires a good corporate manager to achieve the main objectives of planning and supervision of the administration progress.

Tax administration is an activity of recording, classifying and storing all in regarding with taxation information related. A good administration is always accompanied with a strict management supervision to monitoring the process and cycle. Some good corporate tax administration also can certainly reduce the potential risk for additional tax debts that come from administrative errors.

## III. RESEARCH METHODOLOGY

This is a qualitative research. According to Soerjono Soekanto and Sri Mamudji (2010), qualitative research is descriptive basis to understand a phenomenon. Qualitative research uses a theoretical basis as a guide to focus research, as well as highlighting the processes and meanings contained in the phenomenon.

The collecting discussion materials method or the technique of collecting research materials used in this qualitative research is a combination of case studies and historical studies. Researchers use a combined method to explain a phenomenon as detail as possible by collecting data as detail as possible, which shows the importance of detail of the data being studied. In qualitative research, the more thorough and unearthed the data obtained, the better the quality of the research. However, in terms of the number of respondents or research objects, qualitative has fewer objects than quantitative because it prioritizes data detail rather than data quantity.

The case study research method examines a particular case or phenomenon that exists in society which is carried out in-depth to study the background, circumstances, and interactions that occur. Case studies are carried out on a unified system which can be in the form of a program, activity, event, or group of individuals that exist in certain circumstances or conditions. Because it specifically examines a particular thing or system, case study research is not carried out to conclude the phenomenon of a particular population or group but specifically for the event or phenomenon under study.

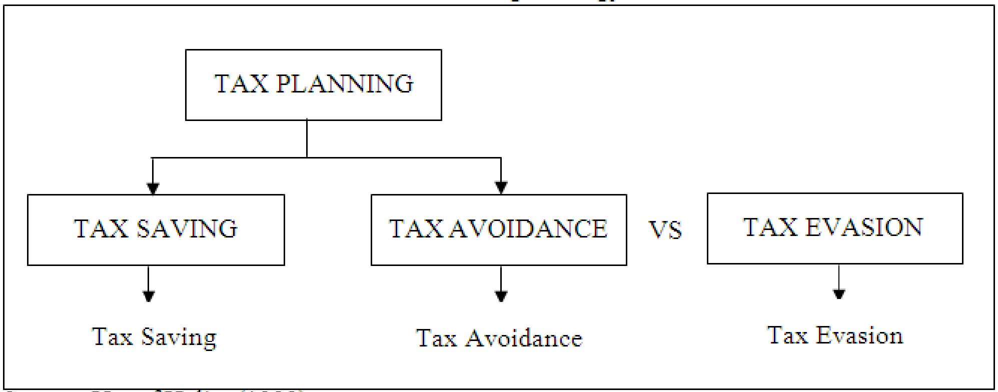
The next research is the historical method, research that focus in the form of events that have passed and reconstructs the past with historical data sources or witnesses that still exist today. Sources of this data can be obtained from various historical records, artifacts, verbal reports, and living witnesses who can be accounted for the truth of their testimony. Because it examines past events, the hallmark of historical research is time; where phenomena are seen as developing or changing based on time shifts.

## IV. DISCUSSION

Tax planning is an effort made by taxpayers to reduce taxes that should be owed or paid by looking for loopholes in tax rules and developing strategies in taxation. Discussing in tax planning, companies have to understand the transactions and applicable tax rules so they can use existing tax rules to develop tax strategies, at the end the companies can reduce its taxes as small as possible. In general, tax planning can be categorized as legal or illegal act depending on how the company carries out tax planning. A tax planning is legal if the tax planning is carried out without violating the applicable tax rules, while the illegal action category is an act that violates the tax rules. Companies have to understand the conditions and consequences in making decisions of tax planning, in this case, legal or illegal actions.

In general, the company's main purpose is to carry out tax planning so the company could earns high profits and maintains its liquidity. Most companies always think that taxes are an "Expenses" that must be paid in the business so it makes the companies always looking for tax rules loopholes in order to reduce “Expenses” as small as possible or nil. Entrepreneurs who always accept many business challenges, of course they are expert in reduce business expenses. According to Sutjipto Ngumar (2000), tax planning is not allowed to violate tax rules, nor does tax planning mean that companies can reduce taxes through tax smuggling, but to save and avoid taxes. Below is the tax planning strategy:

Figure 1
Tax Planning Strategy




Source: Yusuf Halim (1993)

Based on Figure 1, tax saving and tax avoidance are part of tax planning, which means a strategy built to evade taxes legally but it’s different from tax evasion where smuggling or tax evasion is by violating the laws and applicable tax provisions. Companies have to understand the tax rules and hire professional firm in build the tax planning so the tax planning can be built properly and without violating tax rules.

When the tax planning strategy is built, the next stage is tax management. Tax management may transfer part or all of the taxes that must be paid to other parties (Sutjipto Ngumar, 2000). The transferred tax such as VAT that transferred to the consumer, VAT or income tax borne jointly between the seller and the buyer etc. The purpose of tax management is to make sure the company does not pay too much taxes without affecting the quality of service to customers and product quality. In addition, tax management needs to be carried out or controlled by people who are experienced and understand tax rules so this tax planning does not become a tax evasion.

Tax planning and tax management will not succeed without administration. Mostly every things in our daily life are related to administration such as document processing procedures, withdrawing or depositing money to the bank, and etc. Tax planning and tax management are not much different from those previously mentioned. Tax planning and tax management must be supported by good and sufficient administration starting from documentation, data processing, directly related parties, and others so that company goals can be achieved. Tax planning is expected to reduce the taxes that should be paid but need to be careful in tax administration because tax administration errors can lead to administrative sanctions. In addition, the strategy used must also be supported by sufficient administration so that it does not become a problem during tax audits.

Tax planning does not always run smoothly according to the company's goal. Tax planning itself has a big enough risk for the company if it is not considered carefully. For example, the company reports its sales partially as private shareholders sales so the tax owed by the company becomes smaller, but administratively the cash inflow from sales still go to the company bank account so this can be a big problem in the future. At the time of the tax audit, the tax authorities discovered that this practice was no longer tax planning but tax evasion because it was not supported by adequate administration. This tax issue can make companies which in profits before become lose condition because they have to pay additional taxes plus large tax administration sanction. In addition, the company may be subject to tax penalties which can make this problem worse. Therefore, tax planning, tax management, and tax administration need to be carried out by parties who understand the tax provisions and the purpose of tax planning so it's does not become boomerang for the company in further.

## V. CONCLUSION

Tax planning is a company's effort to suppress or reduce taxes that should be paid legally and pay attention to the principles of tax strategy. Tax planning does not mean harming in country revenues because tax planning is not tax smuggling, but choosing others taxes or a smaller rate that does not violate tax provisions. In making tax planning decisions, the company have to pay attention to the following things.

1. Tax planning must be carried out by experienced parties and understand the company's conditions and applicable tax rules.
2. Tax planning must be controlled and supervision at all times to make sure that all things match with what was planned.
3. Companies can use other parties' services to build a tax planning strategy, the goal is to maximize the strategy and minimize the risks that may occur.
4. The tax planning strategy must be carefully considered from various aspects such as documentation, cash flow, goods flow, and etc.
5. Tax planning must be supported by adequate tax administration such as which party will be responsible for documentation, how to process and store data, as well as which tax rules are used to support ongoing transactions.

Every company will always reduce its taxes because most companies are not willing to pay taxes. Taxes are used for country development, but the company always prioritize its interests to company. However, as companies are not willing to pay taxes, their tax obligations are still fulfilled by legal means. Good tax planning can encourage companies to become obedient taxpayers depending on how the tax planning strategy is built.

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