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Integrated Approaches Towards the Future of Tax Industry

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Tax Dispute Resolution

The Taxpayer's Path To Justice

Following the growth of taxpayers as well as the increase of the awareness of taxpayers' rights, tax disputes between taxpayers and tax authorities cannot be avoided. Generally, a tax dispute is defined as a dispute in taxation between a taxpayer or a tax insurer and authorized official as a result of a decision issued which can be addressed through an appeal or a lawsuit to the Tax Court. To resolve tax disputes, a fast, economical, and simple procedure is needed. Therefore, the Indonesian government issued a Law Number. 14 Year 2002 concerning the Tax Court ("Tax Court Law"). The Tax Court accommodates taxpayers in obtaining fair resolutions of tax disputes. The decision of the Tax Court is final and is permanently legally binding. Pursuant to Article 91 of Tax Court Law, the disputing parties cannot take other legal remedies unless a judicial review.

In Indonesia, tax disputes have become an issue due to the growth of cases in recent years. Data from the Tax Court Secretariat shows that in the last five years, the number of tax disputes that go through the Tax Court has been increasing each year. In 2018 there were 11.436 cases, 15.048 cases in 2019, 16.634 in 2020, 15.188 cases in 2021, and 14.709 cases in 2022. However, the Tax Court's capacity is still insufficient to accommodate the tax dispute files. This situation is reflected in tax dispute resolution each year. In 2018, only 9.963 cases were finished. The following year, 10.166 cases were finished, and in 2020, 10.128 were finished. The numbers keep growing each year, as in 2021, it is known that 12.959 cases were finished, and in 2022, finished cases reached 15.561

The gap between the number of tax dispute files and the number of tax dispute solutions shows that every year the tax dispute arrears cannot be avoided. Table 1.1 shows the tax dispute arrears in 2018-2021.

Year	2018	2019	2020	2021
Number of Tax Dispute File	11,436	15,048	16,634	15,188
Number of Tax Dispute Resolutions	9,963	10,166	10,128	12,959
Tax Dispute Arrears	1,473	4,882	6,506	2,229

Table 1.1 Tax Dispute Arrears

Based on the data above, it shows that the tax dispute resolution in Indonesia is not a quick, simple, and economical process. Taxpayers are required to wait for more than three years for a lawful resolution. In other words, Indonesia's Tax Court is still unable to ensure certainty for taxpayers. The accumulated tax disputes in the Tax Court must be solved immediately because the taxpayers will be the ones to bear the losses in terms of tax compliance costs including direct money cost, time cost, and physiological cost. Additionally, data from the Tax Court Secretariat also shows that taxpayers often won the appeals process in the Tax Court. This finding is supported by the 2022 decisions made by the Tax Court where out of 15.561 cases, judges have granted entirely 6.374 cases, partially granted 3.004 cases, rejected 4.634 cases, and canceled 82 cases.

The accumulation of tax dispute cases in Tax Court begins from a dispute that occurs at the auditing level. Based on Article 29 General Provisions and Tax Procedures Law Number 28 2007 as amended by Harmonization of Tax Regulations Law Number 7 Year 2021, The Directorate General of Taxes ("DGT") has the authority to conduct a tax audit to monitor the taxpayers' compliance or for the other purposes to enforce the tax regulation.

There are two types of tax audits, which are tax office audits and field audits. The scope of tax audit may cover one type of tax, several types of tax, or all taxes both for the previous years and for the current year. Based on the tax audit result, DGT has the authority to issue 3 (three) types of Notice of Tax Assessment. Firstly, the "Notice of Tax Underpayment Assessment" as mentioned in Article 13 paragraph (1) of General Provisions and Tax Procedures Law is issued if there are taxes that are not disclosed or underpaid. Second, the "Notice of Overpayment Tax Assessment" as mentioned in Article 17 paragraph (1) of General Provisions and Tax Procedures Law is issued if the amount of tax credit or taxes paid exceeds the amount of tax payable. Third, the "Notice of Nil Tax Assessment" as mentioned in Article 17A paragraph (1) of General Provisions and Tax Procedures Law is issued if the amount of tax credit or taxes paid is equal to the amount of tax payable or there is no tax payable, tax credit, or tax payments.

Referring to Article 25 of General Provisions and Tax Procedures Law, if the taxpayers do not agree with the tax audit result, based on the "Notice of Tax Assessment", taxpayers can apply for an objection to DGT. The objection application must be submitted within 3 (three months) from the date of "Notice of Tax Assessment" was sent out to the taxpayer. However, the taxpayers must be prepared for the tax risk of objection when the objection decree is rejected or partially granted. The taxpayers must bear the administrative sanctions in the form of a fine amounting to 30% of the tax amount based on the objection decree minus the tax that has been paid before the objection application. Nevertheless, administrative sanctions will not be imposed if the taxpayers file an appeal to the Tax Court.

Basically, there are two tax dispute resolutions that can be taken by taxpayers at the Tax Court level namely appeal and lawsuit. Referring to Article 27 of the General Provisions and Tax Procedures Law, a taxpayer can file for an appeal to the Tax Court on objection decree. An appeal must be submitted no later than 3 (three months) from the Objection Decree Letter is received. Likewise, as the objection risk, taxpayers must also be prepared to face the tax risk of appeal when the appeal decree is rejected or partially granted, the taxpayers must bear administrative sanctions in the form of a fine amounting to 60% of the tax amount based on the appeal decree minus the tax that has been paid before the objection application.

Whilst the lawsuit is regulated in Article 23 of the General Provisions and Tax Procedures Law. A lawsuit can be applied against:

a. execution of a Coerce Warrant, Notice of Seizure, or Notices of Auction;
b. preventive decisions in the context of tax collection;
c. decisions that relate to the execution of tax decisions, other than those stipulated in paragraph (1) of Article 25 and Article 26;
d. issuance of a "Notice of Tax Assessment" or an Objection Decree Letter is not in accordance with the procedures or provisions of tax regulations.

Mediation for Indonesian Tax Disputes Resolution: Potential Alternative Strategy

In summary, Indonesian tax law does not provide for arbitration or mediation for tax disputes that arise between taxpayers and tax authorities. On the other hand, the current tax law and Tax Court capacity are still unable to ensure certainty, simplicity, and efficiency for the taxpayers. Therefore, an alternative strategy is needed to address this issue. The Indonesian government might consider mediation as a potential way to resolve disputes out of court. Mediation is considered as more quick, simple, and easy for a dispute resolution. In Indonesia, mediation is unknown in the settlement of tax disputes, however, mediation in the settlement of tax disputes through alternative dispute resolution ("ADR") has been practiced in the United States, the United Kingdom, and Australia.

Firyal Alvivah Safana

Transfer Pricing Method

Understanding Transfer Pricing Methods in a Business Setting

Transfer pricing is a well-known practice that commonly occurs within the taxation and accounting industry. Transfer pricing typically happens between businesses and subsidiaries, occurring both on a domestic and international level. To know transfer pricing, one must be acquainted with its definition.

What is Transfer Pricing?

The definition of transfer pricing can be seen from three different aspects: legal, industrial or managerial accounting, and taxation. From a legal perspective, transfer pricing is a tool to increase efficiency and synergy between a company and its shareholders. From an industrial or managerial accounting aspect, companies can use transfer pricing to maximize company profits by determining the price of goods or services from an organizational unit to other organizations within the same company. This case often occurs when a large company has a subsidiary as a supplier or supporter of the parent company's business.

Meanwhile, from the tax aspect, transfer pricing is a pricing policy in transactions carried out by parties who have a special relationship. This definition will be used throughout this article.

When speaking about transfer pricing, the topic of special relationships between businesses comes up. In Domestic Law, especially in Article 18 Paragraph (4) of Law Number 7 Year 1983 regarding Income Tax as lastly amended by Law Number 7 Year 2021 regarding Harmonization of Tax Regulations ("Income Tax Law") and/or Article 2 Paragraph (2) of Law Number 8 Year 1983 regarding Value Added Tax and Sales Tax on Luxury Goods which has been amended several times, lastly by Law Number 7 Year 2021 ("VAT Law"), a special relationship is defined as a relationship between a Taxpayer and a related party. In the context of the Tax Treaty, the meaning of associated enterprise is regulated in Article 9 Paragraph (1) of the OECD Model or UN Model, which contains an explanation related to associated enterprise as follows:

"Associated Enterprise, Where: (a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of other Contracting State, or (b) the same persons participate directly or indirectly in the management, control, or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State."

Provisions regarding special relationships are regulated in Article 18 Paragraph 4 of Income Tax Law ("UU PPh") in relation to granting authority to the Director General of Taxes to examine the application of the principles of fairness and business custom to transactions between parties with special relationships. This article also explains that special relationships can occur due to ownership or capital participation, control through management or technology even though there is no ownership relationship, and blood or joint family relationships.

A special relationship is considered to exist if the ownership relationship takes the form of capital participation, either directly or indirectly, of 25% or more in another taxpayer. Then, a control relationship can occur if two or more taxpayers are under the same control, either directly or indirectly. This control can take the form of control through company management, where the Director of the company holds the same position as the Director of another company, resulting in a special relationship between the two companies. According to Article 18 Paragraph 4 of Income Tax Law, special relationships can occur due to relationships between parties (in this case, between companies). It is also stated in Article 4 Paragraph (2) Minister of Finance Regulation Number 22/PMK.03/2020 regarding the Procedures for Implementing Transfer Pricing ("MOF Regulation 22/2020") that:

"a state of dependence or connection between one party and another party is a condition where one or more parties control another; or not free-standing.".

So, it can be concluded that affiliation or dependence can occur due to ownership or equity participation, control through management or use of technologies, and family relationships by blood or marriage.

Transfer Pricing Mechanisms

Transfer pricing is often done by multinational companies ("MNCs") to minimize tax payments, which could result in having a negative connotation called profit shifting. This transfer pricing practice works by shifting income from a company in a country with a higher tax rate to another company in a group in a country with a lower tax rate to gain greater profits on a group scale. Income, sales prices, purchase prices, allocation of administrative costs, commission payments, licenses, rent, royalties, etc., can also be transferred.

Based on Article 2 Minister of Finance Regulation Number 213/PMK.03/2016 regarding The Types of Additional Documents and/or Information That Must Be Maintained by Taxpayers Conducting Transactions with Related Parties, and the Procedures for Their Management ("MOF Regulation 213/2016"), taxpayers who carry out affiliated transactions and meet the criteria in Article 2 Paragraph (2) MOF Regulation 213/2016, is necessary to create a Transfer Pricing Documentation, namely a document held by the Taxpayer as a basis for applying the Principles of Fairness and Normality of Business in determining Transfer Pricing carried out by the Taxpayer consisting of master file, local file, and/or country-by-country reports. The criteria that should be fulfilled include:

1. The gross circulation value of the previous Tax Year in one Tax Year is more than IDR 50,000,000,000 (fifty billion rupiah)
2. Value of Affiliate Transactions from the previous Tax Year in one Tax Year:
   1. More than IDR20.000,000,000 (twenty billion rupiah) for transactions of tangible goods or
   2. More than IDR 5,000,000,000 (five billion rupiah) for each provision of services, payment of interest, utilization of intangible goods, or other Affiliated Transactions, or
3. Affiliates located in countries or jurisdictions with Income Tax rates lower than the Income Tax rates as intended in Article 17 of Law Number 7 Year 1983 regarding Income Tax as frequently amended and last by Law Number 36 Year 2008 concerning Amendments Fourth of Law Number 7 Year 1983 regarding Income Tax.

Differences Between Transfer Pricing Methods

“In accordance with Article 18 Income Tax Law, five methods can be used to determine transfer pricing:”

Comparable Uncontrolled Price Method (“CUP”)

In accordance with Article 13 Paragraph (3) MOF Regulation 22/2020, CUP is a method that compares the transaction price of goods or services between affiliated parties with the price of transactions between independent parties.

This method summarizes the interests of both parties to the transaction, sellers and buyers, especially because prices are formed based on the results of negotiations.

The CUP method is considered the best and is prioritized over other methods because it is reliable in showing the principles of fairness, which are transaction-based, and normality of business if comparable data is presented. The products being compared must be of the same or similar type, have similar quality and quantity, take place at more or less the same period, under similar conditions, and at the same production or distribution chain level. This method can also be used in transactions with a slight difference with the comparison product, however, the difference does not influence price determination. If differences affect price determination, and adjustments cannot be made for these influencing factors, then this method cannot be applied.

Resale Price Method (“RPM”)

According to Article 13 Paragraph (4) MOF Regulation 22/2020 jo. Article 11 Paragraph (4) Director General of Taxes Regulation Number 32/PJ/2011 regarding Amendment to Director General of Taxes Regulation Number PER-43/PJ/2010 regarding Application of Arm’s Length Principle in Transaction between Taxpayer and the Party Having Special Relationship (“PER 32/2011”), RPM is a transfer pricing method carried out by comparing the price in a product transaction carried out between parties who have a special relationship with the resale price of the product after deducting a reasonable gross profit, which reflects the function, assets, and risks, on the resale of the product to the other party. Others who do not have a special relationship or resale of products carried out under reasonable conditions.

This method is suitable for transaction characteristics such as transactions that are influenced by special relationships carried out by involving distributors or resellers who resell goods or services to independent parties or to affiliated parties at prices that meet the principles of fairness and business custom, distributor or reseller does not bear significant business risks, does not have a unique and valuable contribution to the Transaction Affected by the Special Relationship, or does not provide significant added value to the goods or services transacted.

Cost-Plus Method (“CPM”)

In accordance with Article 13 Paragraph 5 MOF Regulation 22/2020, CPM is a method where the Taxpayer determines the fair transfer price by adding the reasonable gross profit of the manufacturer or service provider to the cost of goods or services sold.

This method can be used for products, services, and customer contracts, where the customer agrees to a price that includes a pre-negotiated labor price above the seller's costs.

CPM can be used in service or cost-contribution agreements. In this case, there is an addition to reasonable gross profit (arm's length markup) originating from independent transactions or independent companies when transacting with other companies. CPM is also used in analyzing long-term buying and selling transactions, sales of semi-finished goods, contract manufacturing service activities, and contract manufacturing. However, the CPM can also be applied to simple factories without complex activities to estimate costs and profits. Apart from that, this method also compares profits at the gross profit level.

Profit Sharing Method (“PSM”)

PSM determines the fair price by dividing the relevant transactions' combined profits based on the parties' functions, assets, risks, and/or contributions in the transactions affected by special relationships. This method is suitable for transaction with certain characteristics, such as the parties to the transaction have a unique and valuable contribution to the transaction, which is influenced by a special relationship; the business activities of the parties to the transaction are highly integrated business activities so that the contribution of each party to the transaction cannot be made.

Separate analysis: The parties to the transaction share economically significant business risks (in the context of sharing the assumption of economically significant risks) or separately assume closely related risks.

Applying this method, the combined profit from an affiliated transaction is distributed to the parties involved in the affiliated transaction based on a certain economic basis that reflects the fair distribution of profits between independent parties. PSM is different from other transfer pricing methods, PSM can be applied to complex transfer pricing cases.

Transactional Net Profit Method (“TNMM”)

According to Article 13 Paragraph 7 MOF Regulation Number 22/PMK.07/2020, TNMM is a method that compares the level of operating profit obtained through affiliate transactions with operating profit obtained through independent transactions. TNMM is often used in transactions between parties with a special relationship, and these transactions have a complex nature. In addition, this method is often used because it is considered more flexible towards functional comparability, ...

... and assesses that profits obtained by companies in similar conditions and in the same industry and market tend to be equal in the long term. Therefore, what can be used as a relevant indicator of the profits obtained by companies from affiliated transactions are profits obtained by independent companies.

However, in the Tax Harmonization Law, three additional methods are permitted to be used, namely:

Comparable Uncontrolled Transaction Method

Comparable Uncontrolled Transaction Method is a method that is carried out by comparing transaction prices/profits on a certain basis between transactions that are influenced by special relationships and independent transactions. This method is suitable for transactions affected by special relationships that are commercially valued based on certain bases, including interest rates, discounts, provisions, commissions, and royalty percentages on sales or operating profits.

Methods for Valuing Tangible Assets and/or Intangible Assets

The method for assessing Tangible Assets and/or Intangible Assets or Tangible Assets and Intangible Asset Valuation follows tax provisions that regulate applicable valuation standards. This method is suitable for transaction characteristics such as transfer of tangible and/or intangible assets, rental of tangible assets, transfer of financial assets, etc.

Methods in Business Valuation

Methods in Business Valuation or Business Valuation are carried out according to tax regulations regulating applicable assessment standards. This method is suitable for transactions such as transferring assets other than cash to companies, partnerships, and other entities instead of shares or capital participation and transfers of assets other than cash to shareholders, partners, or members of companies, partnerships, or other entities.

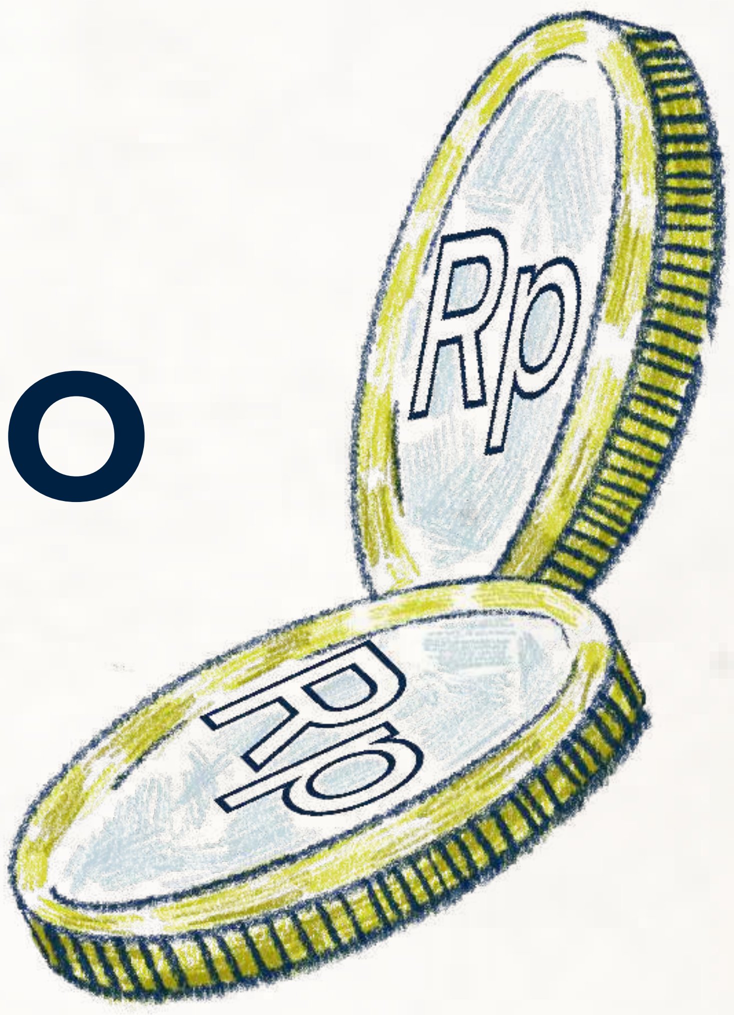
Conclusion

Transfer pricing consists of meticulous and detailed activities aimed to reduce or minimize the amount of tax paid by a parent company, which usually involves a special relationship between businesses or other parties.

“Transfer pricing is known as a common method, and a tax consultant could provide assistance in reaching the desired outcome from this activity.

Here at MIB, we ensure that we can assist in developing key strategies and ensuring that the transfer pricing transactions happen at arm’s length.”

Why Do Financial Statements Have to be Audited?



In order for the intended users of financial statements to feel more confident, it is necessary that the financial accounts of corporations undergo an audit by an independent external auditor. This is accomplished by the auditor's expression of opinion regarding whether or not the financial statements were prepared in compliance with the relevant financial reporting framework in all significant respects.

The main objectives of an auditor when performing a financial statement audit are twofold. Firstly, they aim to obtain reasonable assurance about the absence of material misstatements in the overall financial statements. This enables the auditor to express an opinion on whether the financial statements have been prepared, in all significant aspects, in accordance with the applicable financial reporting framework.

Secondly, the auditor is required to report on the financial statements and communicate their findings in compliance with the relevant auditing standards. By fulfilling these objectives, the auditor ensures the accuracy and integrity of the financial information presented in the statements and facilitates effective communication of their assessment.

Companies That are Required to Audit Financial Reports

Based on the Minister of Trade Regulation Number. 25 of 2020, companies that are required to audit financial statements are companies with the following criteria:

1. Limited Liability Company that meets one of the criteria: 1) is a Public Company; 2) business fields related to mobilizing public funds; 3) issue a debt acknowledgment letter; 4) have assets or wealth of at least IDR 25,000,000,000.00 (twenty-five billion rupiahs); or
2. Foreign companies domiciled and carrying out their business in the territory of the Republic of Indonesia in accordance with the provisions of statutory regulations, including branch offices, sub-offices, subsidiaries as well as agents and representatives of such companies who have the authority to enter into agreements; or
3. Corporate Companies (PERSERO), Public Companies (PERUM), and Regional Companies

Audit Testing

As the complexity of businesses increases, a properly managed business will implement its own systems and controls to ensure efficient operations, protect its assets, and provide reasonable assurance regarding accurate reporting of transactions and completeness of financial statements.

In those areas where the auditor intends to utilize such controls to modify the kind, timing, and scope of their testing, the auditors evaluate the efficacy of these controls in preventing and mitigating the potential risk of material misstatement. The amount of substantive audit evidence required to form an opinion may be lowered if they have tested the controls and determined that they functioned consistently throughout the year. It will always be necessary to get varied degrees of substantive audit evidence, even in cases when the controls are deemed credible.

Furthermore, the auditor is obligated to conduct additional procedures to gather substantive audit procedures. These procedures encompass various methods, such as physically observing or inspecting assets like inventory or property, plant, and equipment. The auditor also examines records that provide support for balances and transactions. Moreover, they obtain confirmations from external parties with whom the company engages in business, including suppliers, customers, and particularly the banks utilized by the company. The auditor also verifies elements of the financial statements by comparing them to pertinent external information and investigating any discrepancies, such as employing an external market index to validate pricing and valuations. Finally, the auditor verifies calculations to ensure accuracy.

Audit Opinion

The audit committee will assess the accuracy, reliability, and integrity of all financial documents provided by the business administration in order to prepare the audit report.

After that, they will formulate an audit opinion and incorporate it in the audit report that is created, taking into account the audit evidence that has been gathered. Stakeholders may use this opinion in the future to inform choices.

Based on the ISA-705, there are several types of Audit Opinions, of which can be given by the audit committee based on its properties. These types are:

Unqualified Opinion

An unqualified opinion is a fair opinion without exception. This opinion is issued if the auditor assesses that every financial record made by the client company is free from material misstatements. This opinion is considered the most favorable of the audit report because it means that the company has applied all accounting principles in accordance with applicable rules and complied with relevant regulations and legal requirements.

Qualified Opinion

The auditor will issue a qualified opinion in two scenarios firstly when, based on adequate and relevant audit evidence, the auditor determines that there are material misstatements in the financial statements, either individually or in combination, that are not pervasive; or when the auditor is unable to obtain sufficient appropriate audit evidence to form an opinion, but believes that any undetected misstatements could potentially have a material impact on the financial statements, although not pervasive.

Adverse Opinion

The auditor will express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion

The auditor will disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. When, in extremely rare circumstances involving multiple uncertainties, the auditor determines that it is impossible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements, even after having obtained sufficient appropriate audit evidence regarding each individual uncertainty, the auditor will disclaim an opinion.

Reasons Why Financial Statements Need to be Audited

Based on Law Number 40 of 2007 of Limited Liability Company, the Board of Directors must submit an annual report to the General Meeting of Shareholders or RUPS after being reviewed by the Board of Commissioners within a maximum of 6 (six) months after the Company's financial year ends. The annual report must contain financial statements, including a balance sheet, profit and loss statement, cash flow statement, and statement of changes in equity, as well as related notes. In addition, the annual report must also include reports regarding the Company's activities, implementation of Social and Environmental Responsibility, details of problems affecting the Company's business activities, reports regarding the supervisory duties carried out by the Board of Commissioners, as well as information regarding members of the Board of Directors and Board of Commissioners along with their salaries and allowances. Financial reports must be prepared in accordance with financial accounting standards. If the Company is required to be audited, the balance sheet and profit and loss report must be submitted to the Minister in accordance with applicable laws and regulations.

Article 68 in Law Number 40 of 2007 states the obligations of the Board of Directors regarding the submission of the Company's financial statements for auditing by a public accountant. Below is a summary of Article 68:

1. The Board of Directors is required to submit the Company's financial statements to a public accountant for auditing in the following situations:
   a. The company engages in fundraising and/or manages public funds.
   b. The company issues debt securities to the public.
   c. The company is a publicly listed company.
   d. The company is a state-owned enterprise.
   e. The company has assets and/or annual turnover with a minimum value of Rp50,000,000,000.00 (fifty billion rupiahs).
   f. The obligation is stipulated by laws and regulations.
2. If the aforementioned obligation is not fulfilled, the financial statements will not be approved by the RUPS.
3. The written report on the audit results by the public accountant, as mentioned in point 1, should be submitted to the RUPS through the Board of Directors.

Conclusion

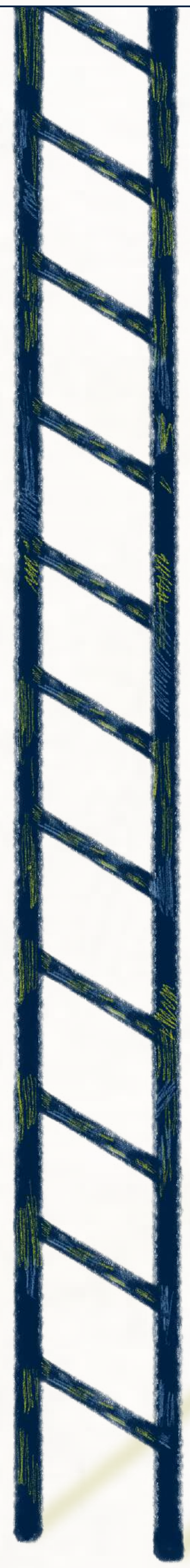
In conclusion, financial statements need to be audited for several reasons. Firstly, an audit conducted by an independent external auditor provides confidence and assurance to the intended users of financial statements, such as investors, lenders, and stakeholders. The auditor's opinion on whether the financial statements are prepared in compliance with the relevant financial reporting framework adds credibility to the information presented. Additionally, auditing helps detect material misstatements, assess the effectiveness of internal controls, and perform substantive testing to gather sufficient evidence to form their opinion.

The audit opinion, which can be unqualified, qualified, adverse, or in the form of a disclaimer, informs stakeholders about the accuracy, reliability, and integrity of the financial documents. Compliance with auditing requirements is decreed by laws and regulations, and failure to fulfill these obligations may lead to non-approval of financial statements by the General Meeting of Shareholders. Ultimately, financial statement audits play a crucial role in promoting transparency, accountability, and trust in the reporting of financial information.

Sharfina Milla A. Roeslan

Building a Functional & Compliant Business

A Glance of Tax Implications to Organizations



Taxation plays a pivotal role in the functioning of organizations, influencing their financial decisions, structure, and overall operations. It has such intricate impacts, directly and indirectly, considering its complexities, implications, and evolving nature in the contemporary business landscape.

Here's an in-depth exploration of the intricate relationship between taxes and organizations.

Understanding Taxation and Its Impact on Organizations

Taxation stands as one of the most significant aspects affecting the operations, structure, and decision-making processes of most organizations, regardless of their establishments. It has multifaceted aspects and profound implications for various types of organizations.

Taxation constitutes a mandatory contribution imposed by governments on individuals and entities, providing revenue to finance public services and projects. For most organizations, taxes come in diverse forms such as income tax, sales tax, property tax, and more, each with its specific regulations and impact. In terms of impacts, this article takes two perspectives, one is technical taxation implications and the other is its effect on organizational behavior.

Types of Taxes and Its Influence on Organizations

Income Tax

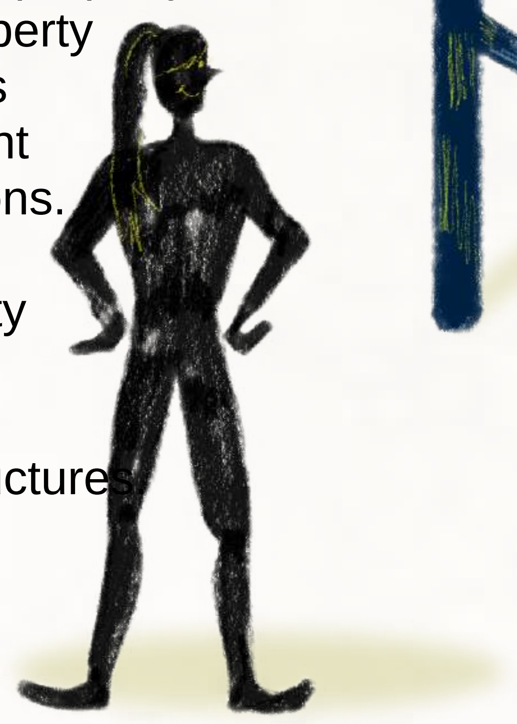
Among the most prominent taxes, income tax affects organizations based on their profit margins and taxable income. Corporations, partnerships, and sole proprietorships are subject to varying income tax rates, influencing their financial planning and business strategies.

Sales Tax

Sales tax impacts organizations engaged in the sale of goods and services. Understanding regional sales tax rates, exemptions, and compliance requirements is crucial for businesses operating in different jurisdictions.

Property Tax

Real estate and property-intensive organizations face property taxes, which influences their asset management and investment decisions. These taxes vary by location and property value, meaning that these taxes also affect organizations' cost structures.



Payroll Taxes

Employee wages are subject to payroll taxes, impacting both employers and employees. Managing payroll taxes involves compliance with regulations and reporting requirements, affecting organizational expenses and employee compensation.

Tax Planning Strategies

Organizations employ various strategies to optimize their tax liabilities legally. Some of the examples of tax planning strategies may include capitalizing on tax deductions, credits, and incentives, and structuring operations to minimize tax exposure.

Tax Compliance

Ensuring compliance with tax laws and regulations is paramount. Organizations must maintain accurate financial records, file timely tax returns, and adhere to reporting requirements to avoid penalties and legal repercussions.

Taxation Impacts on Organizational Behaviour

Tax considerations significantly influence financial decisions such as investment choices, capital structure, and dividend policies. Tax implications play a pivotal role in determining the organizational structure, and organizations often align strategies to mitigate tax burdens and maximize after-tax returns. Factors such as liability, taxation of profits, and administrative ease drive decisions related to choosing between sole proprietorships, partnerships, corporations, or hybrid entities.

Utilizing a global point of view, taxation affects organizations through international taxation. Global organizations navigate complex tax regimes across multiple jurisdictions, addressing challenges like transfer pricing, tax treaties, and foreign tax credits. Strategies involving tax havens and cross-border transactions require meticulous planning to ensure compliance and mitigate risks.

It is also important to highlight that taxation is usually related to the social responsibility efforts of an organization. Organizations recognize the role of taxation in contributing to societal welfare. Ethical tax practices align with corporate social responsibility ("CSR") initiatives, emphasizing transparency, fair contributions, and community development.

Future Taxation Trends to Organizational Challenges

Nowadays, the taxation landscape continues to grow and evolve in numerous ways. One of the key improvements applied within a series of advancements of the taxation industry is through technological revolution, made to ease the taxation process for both individuals and organizations. This could affect how businesses and organizations alike comply with applicable tax laws.

Technological innovations like automation and artificial intelligence impact tax administration, compliance, and enforcement. Organizations adapt to these changes while navigating evolving regulations and digital tax frameworks. Ongoing policy changes, geopolitical shifts, and international agreements reshape taxation landscapes, impacting organizations worldwide. It is most important for organizations to take notes of these adjustments, as adapting to these changes remains critical for sustainable operations.

Taxation intricately weaves into the fabric of organizational operations, influencing financial decisions, structures, and societal contributions. Organizations navigating the complex tax environment must strategize effectively, balancing compliance, financial optimization, and ethical responsibilities for sustainable growth and societal impact.

Talents in The Tax Industry

Enhance Your Chances of Succeeding

The tax industry is a complex and ever-changing field that requires individuals with special talents and skills.

This industry encompasses a broad range of roles, including tax accountants, consultants, auditors, and advisors. It is critical to ensure that both individuals and corporations fulfill their tax obligations. To handle the difficulties of this profession, a certain set of skills are needed. Strong experience in tax regulations, precise attention to detail, and good analytical skills are required in order to succeed in the industry.

Common Talents in the Tax Industry

Analytical thinking, attention to detail, and problem-solving skills are important talents to have if you want to pursue a career in taxation. Why is analytical thinking of such importance in the tax profession? Due to the nature of the profession, it is critical to be able to assess complicated financial data and grasp tax rules in order to effectively calculate tax liabilities and discover appropriate deductions.

In addition, great attention to detail is required to ensure correct tax reporting and conformity with ever-changing tax legislation. Furthermore, in order to assist clients in minimizing tax liabilities and maximizing tax benefits, tax professionals must have the greatest problem-solving concepts when detecting and resolving complicated tax difficulties.

The Importance of Having Talents in the Industry

As the industry progresses, it becomes more and more important to have professionals within the industry who could potentially assist individuals and organizations. Tax professionals contribute to the success of organizations and individuals by reducing tax costs, providing strategic tax planning, and assuring compliance with tax regulations. Clients benefit from their knowledge and expertise as they navigate complex tax landscapes and make sound financial decisions.

Ways to Develop and Improve Tax Talents

By looking at the nature of the industry, it is vital for talents to improve themselves. There are at least three ways to develop and improve tax talent.

The first step is continuous learning, where talent must develop tax regulations, attend industry seminars, and obtain special certifications to increase their tax knowledge. The second is networking, where talents are advised to build relationships with experienced tax professionals and join professional organizations to gain insight and expand professional opportunities.

Last but not least, and the most important, is having on-the-job experience, where talents must gain direct experience by working on various tax projects under the guidance of experienced mentors.

> ***MIB's Human Capital Division is devoted to finding and developing the different abilities required for professional growth in order to provide excellent service while producing outstanding outcomes for all customers and stakeholders.***

Here at MIB, we choose our people holistically. We work with people who are not only committed to their work quality but also people who maintain humility and approachability.

The development of our people is a priority to us, which is reflected in our range of development initiatives through a series of activities and resources rooted in technology and knowledge, both local and global, and to nurture relationships with their clients continuously. Our strength lies in our ability to connect with our people, our members, and clients, virtually—proving that it is always possible to build and maintain relationships wherever you are around the globe.

MIB seeks sources of a quality workforce by developing talent pipeline collaborations with various well-known colleges and professional networking, as well as conducting comprehensive assessments to analyze their knowledge in taxation, research techniques, and software proficiency. These evaluations provide a baseline for creating effective training plans. MIB provides comprehensive training that combines technical tax knowledge with soft skill development. This comprehensive training method includes an assortment of internal and external training tools, such as the “Expert Series”, workshops, webinars, and online courses, tailored to each staff member's needs and work specialization.

MIB has a commitment to continue developing the potential of its members. Therefore, MIB encourages its tax staff to acquire additional education and professional certifications in order to foster a culture of continual learning. MIB proves its commitment to its staff members by providing financial assistance for necessary courses and certifications, as well as work schedule flexibility to allow for studying and exam preparation.

Furthermore, with over 10 years of experience, our team of professionals lies in the heart of business services, and we showcase the key strength of MIB, which is being able to cater to different industries and apply their expertise to tailor to different needs of clients. MIB is committed to providing the best solution and value for our clients by offering a range of services to meet our clients' tax objectives. MIB aims to be the leading group of professionals by consistently creating positive impacts and carrying sustainable values in every step of our work and solutions.

MIB is a wonderful place to begin a career for individuals with a passion for taxation, as it will broaden their exposure to tax experiences in addition to improve their abilities and comprehension of taxation.

Values of MIB

We recognize that traditional development in the form of courses or workshops will not suffice to unlock our greatest potential. A positive culture is critical in ensuring that the organization's talents feel protected, valued, and completely supported as they continue to grow. A positive culture is also a powerful driver of productivity and employee satisfaction. By understanding its impact, creating a supportive environment, and measuring its effectiveness, organizations can unlock the full potential of their workforce and achieve long-term success.

> ***“At MIB, we create positive impacts and sustainable values on businesses and society. We share the same values which highlight integrity, excellence and innovation, passion and leadership, agile collaboration, respect, and sharing in doing our jobs.”***

Marketing Roles in Increasing Tax Awareness and Contributing To Tax Education

Tax is one, if not the most important, source of income for Indonesia. However, its awareness within Indonesian society can still be viewed as low to none. The stance can be viewed from the current condition of the tax compliance rate of taxpayers, where in 2022, the data from the Directorate General of Taxes shows that around 83.2% of the registered taxpayers have submitted their annual tax returns or known as 'SPT Tahunan'.

However, it is worth noting that not all Indonesian citizens are registered taxpayers. Of a total of 275.77 million citizens in Indonesia, only around 66.2 million are registered taxpayers, showing that only around 24% of Indonesian citizens are taxpayers and are under the mandate to fulfill their tax obligations. What about the other 76% of citizens? How can the Directorate General of Taxes, as well as the Ministry of Finance, engage and increase the number of taxpayers in Indonesia?

Although the compliance rate of taxpayers is considered high, we should also look through the context when comparing the number of citizens in Indonesia. Suppose we relate the number of remaining citizens to the number of tax consultants for educational purposes. Indonesia then sees a great imbalance considering the number of registered tax consultants in 2022 is only around 6.526 people. This could also be a factor of why only several Indonesian citizens are aware of the importance of tax.

In spite of that, the government did not stay silent. They have made a rigorous amount of effort to ensure that Indonesian citizens stay alert and updated on the current state of Indonesian tax, and have done many in order to increase the number of registered taxpayers in Indonesia.

For example, the central and regional governments conduct many tax socializations on different kinds of taxes that the citizens must pay, such as vehicle or income tax.

Not only that, but the government also managed to increase the number of taxpayers by launching an integrated tax system, where Taxpayer Identification Numbers (known as 'NPWP') and National Identification Numbers (known as 'NIK') will be integrated and used as a single identity number for all citizens.

However, it is not too far of a saying that the government still has so much homework to increase tax awareness and ensure that tax education is equal among all layers of Indonesian citizens.

Marketing Efforts to Distribute Tax Knowledge in Indonesia

One of the ways the government can increase tax awareness and education is by utilizing and increasing its marketing efforts. In this sense, the government can both tap into society using marketing with official government institutions, as well as make use of registered tax consultants to educate. This shows that the government actually has many ways to deliver Indonesia into becoming a tax-conscious country.

As a tax consultant, it should also be noted that its priority is to not only deliver the best kind of services for its clients but as a tax consultant with a higher level of tax understanding, to also educate its audience. Thus, tax consultants should also implement marketing efforts and strategies to ensure that their educational content reaches and is understood by all layers of society.

In commercial language, marketing is often seen and defined as a tool to promote and sell your services or products. The term can be seen as 'looking for profit', however, its application does not necessarily limit its goals into profit-producing. Forbes describes marketing as the "process of creating and delivering value-based arguments for your offerings", and 'offerings' can co-exist with educational values.

Thus, it is not a stretch to see the attempts made to increase tax awareness as marketing efforts. For example, the government made sure to always conduct tax socialization events in hopes of addressing tax obstacles that taxpayers may face in fulfilling their obligations. The government also uses its social media to convince taxpayers and educate them about current tax regulations or applicable rates. This matter is not approached solely based on the government's needs, but also based on numerous studies showing that higher tax knowledge positively correlates with a higher attitude towards taxation, and it is more likely for them to comply and fulfill their tax obligations if their tax knowledge is sufficient.

Based on a study concerning a tax educational program conducted by the government called “Pajak Bertutur”, it is found that for students, their tax awareness level is higher after following the program. More so, said students, as aimed by the government in this program, are more likely to become more tax-aware if they have learned about taxation before.

This comes to show that by targeting students, Indonesia is expected to have an increase in its tax awareness level, which will impact the taxation landscape in the future. The efforts concerning tax marketing made by the government is all to ensure that the people in Indonesia are aware of how tax impacts their lives, and how their participation also means the betterment of their lives.

These endeavors show that the government is trying to convince taxpayers to actively participate in developing and implementing tax regulations and obligations in their daily lives, which is another goal that can be achieved through marketing. Strategies and plans are used in order to push taxpayers into having a higher tax knowledge, and as a consequence, resulting in an increasing amount of active taxpayers, higher and stable tax ratio, and rising numbers of tax compliance rates.

Our Role Within The Taxation Environment

“In MIB, we guarantee that it is always within our capacity to utilize our expertise in taxation and deliver them in many forms.”

MIB constantly updates its clients and audience by publishing daily news and monthly newsletters focusing on current tax issues, educates them through articles focused on different types of tax meant to be accessed by a large audience, and by posting bite-sized content, putting to use our social media.

Not only that, MIB also looks after a greater audience, such as students and other non-taxpayers, by holding events that cater to audience needs, such as events discussing basic taxation, the filing of annual tax returns, and tax planning for companies. MIB taps into not only online but also offline audiences by collaborating with local business communities in order to educate society and businesses alike. MIB aims to eliminate any tax knowledge gap within society, thus contributing to a higher tax compliance rate for Indonesia.

Following socialization and marketing efforts, the notion must also be followed with government efforts in establishing a safe, effortless, and pleasant experience for taxpayers to become active in the tax landscape. Current efforts of integrating identification numbers, arranging tax incentives, and providing tax educational programs, have shown results in the current condition of the Indonesian tax, and are expected to continue to reap positive results and growth of the Indonesian tax.

November 2023

Monthly Highlights

In this month, Indonesia is faced with many changes within the taxation industry. From regulatory changes to preparation of new tax calculations, the taxation industry is prepping itself into becoming more and more accessible for Indonesian people. Here are the monthly updates happening in November 2023.

The 2023 Tax Revenue Target is Updated Following Certain Factors

By looking at the state's income, budgeting, deficits, as well as state income adjustment and Accumulated Budget Surplus, the government agrees on increasing the target for taxation revenue in 2023.

The number has now increased to IDR 2,045.45 trillion, with a tax revenue total of IDR 1,818.24 trillion. Most of the taxes also increased its revenue target, with the exception of value-added tax targets and international trade tax factors, such as customs.

> Read more here

Government Offers VAT Incentives for House Buyers

The government plans to increase activities within the real estate sector. To do so, they offered a VAT incentive in the form of VAT-free houses, regulated in the Ministry of Finance No. 120 Year 2023.

People who bought houses in September 2023 at the earliest are eligible for VAT exemption as long as the house that is bought retails up to IDR5 billion. Houses priced at IDR 5 billion are eligible for a VAT help of IDR 2 billion.

The incentive is applicable from November 2023 until June 2024 for 100%, and from July until December 2024 for 50% of the payable VAT.

> Read more here

Next read

17 National Tax Revenue Reached More Than 80 Percent from Target & Core Tax Administration System Announces Data Accuracy Feature

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National Tax Revenue Reached More Than 80 Percent from Target

Up until October 2023, the amount of national tax revenue collected amounts to IDR 1,523.7 T. This number is accumulated from various taxes, including income tax, as well as value-added tax and sales tax on luxury goods.

The numbers on each tax grew positively, with the exception of the Oil and gas income tax, which contracted in its growth due to the price moderation of oils and gases. The collected amount managed to fulfill around 88.89% of the target, which was renewed earlier in November 2023.

> Read more here

Core Tax Administration System Announces Data Accuracy Feature

The new technological innovation in the taxation landscape is aimed to be fully applicable within mid-2024. Among other features, the core tax administration system also introduces a feature called 'Tag Location', aimed to increase taxpayers' data accuracy.

Using this feature may ease communication efforts between taxpayers and tax authorities, and also show the exact pinpoint of a taxpayer's location.

> Read more here

Next read 18 The Calculation for Employee Income Tax's Effective Rate Changes in 2024 & International Tax Highlights

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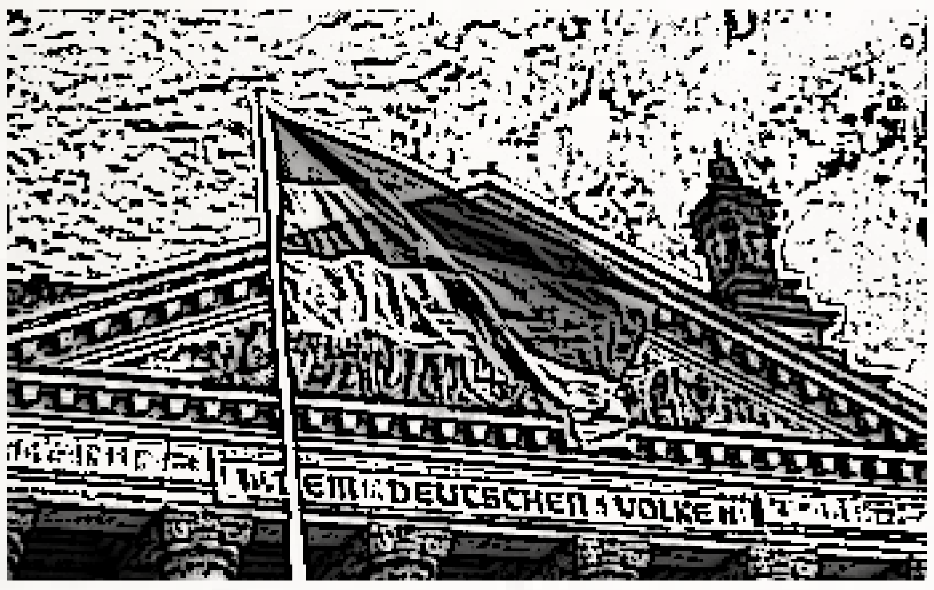
The Calculation for Employee Income Tax's Effective Rate Changes in 2024

The Ministry of Finance plans to update the calculation for employee income tax, also known as Income Tax Article 21. The new calculation is aimed to ease the efforts of the tax withholders, such as organizations and companies.

The calculation will be using a method named Average Effective Rate to simplify the withholding and calculating process of the employee income tax, which will start to be implemented in 2024.

> Read more here



Germany Plans to Get Rid of Restaurant Tax Incentive

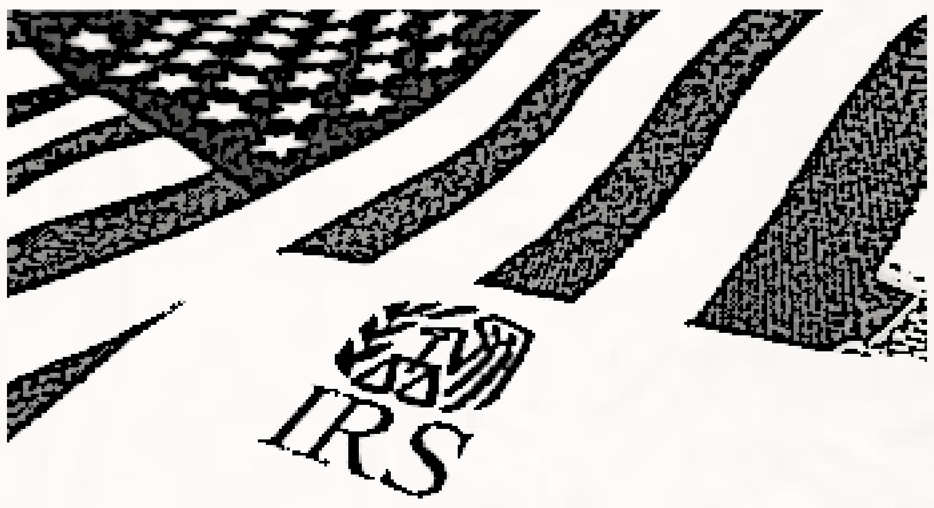
Germany has plans to implement a normal tax rate for restaurant foods by the end of 2023. The incentive, which was introduced during the height of COVID-19, is said to eat up many budgets.

> Read more here

Canada to Offer Tax Incentives for Heating Oil Commodity

The prime minister of Canada plans to exempt heating oil from the imposition of the carbon tax for a period of 3 (three) years.

> Read more here



IRS Changes Up Tax Brackets for American Taxpayers in 2024

The Internal Revenue Service has agreed to change and update the tax brackets for American citizens. The change occurs due to possible inflation looming over the country in 2024.

> Read more here

Tax Calendar

December 2023

Tax Calendar

December 2023

MON	TUE	WED	THU	FRI	SAT	SUN
27	28	29	30	1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25 Christmas Day	26	27	28	29	30	31
1	2	3	4	5	6	7

Reminders

11 December 2023	**Payment Deadline** : November 2023 Art. 4(2), 15, 21/26, 22, & 23/26 Income Tax
15 December 2023	**Payment Deadline** : November 2023 Art. 25 Income Tax, SME Final Income Tax, & Self-Assessed VAT
20 December 2023	**Filing Deadline** : November 2023 Art. 4(2), 15, 21/26, 22, 23/26, & 25 Income Tax
25 December 2023	**Christmas Day**
2 January 2024	**Payment and Filing Deadline** : November 2023 VAT

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