



## "Maximizing Tax Revenue: The Impact of Tax Planning Implementation on Tax Compliance"

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### ABSTRACT

Tax planning is an essential part of tax management for individuals and businesses to minimize their tax liabilities while complying with the applicable tax laws and regulations. This paper aims to review the existing literature on the impact of tax planning on tax revenue. The findings suggest that tax planning can have a significant influence on tax revenue, as it can result in tax avoidance and tax evasion. However, it is important to note that tax planning is legal and ethical, and when done in compliance with tax laws and regulations, it can contribute to increased tax revenue. Therefore, policymakers need to balance between preventing tax evasion and encouraging tax compliance while ensuring that taxpayers have the opportunity to engage in tax planning to minimize their tax liabilities. This review highlights the need for further research to examine the relationship between tax planning and tax revenue in different countries and contexts. It also emphasizes the importance of improving tax administration and enforcement to reduce tax evasion and increase tax compliance. Overall, this review contributes to the literature by providing insights into the complex relationship between tax planning and tax revenue and identifying areas for future research.

**Keywords:** tax planning, tax revenue, tax compliance, tax management

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## 1. INTRODUCTION

Taxes are one of the important sources of state revenue to support a country's economic development. Therefore, the government sets various tax regulations and policies to ensure optimal tax revenue. However, with the increasing complexity of tax regulations, sometimes business owners or taxpayers find it difficult to understand and comply with applicable tax regulations. This can trigger reporting errors or tax avoidance that can negatively impact state revenue.

In dealing with the complexity of taxation, the use of tax planning can be an effective solution for taxpayers to legally minimize their tax burdens. Tax planning is a strategy used by taxpayers to take advantage of legitimate tax loopholes in order to reduce tax obligations. However, the use of tax planning must also be done wisely and in accordance with applicable tax regulations, so as not to violate tax rules and impact tax compliance.

According to a study conducted by Sari, Widodo, and Andayani (2020), the implementation of tax planning can have a positive impact on tax compliance. In their research, it was found that properly implemented tax planning can increase taxpayer awareness of tax obligations, thereby strengthening their commitment to comply with applicable tax rules. In addition, legal and transparent tax planning can also strengthen the relationship between taxpayers and tax authorities, thus increasing trust and cooperation in ensuring tax obligations are fulfilled.

In this case, the proper use of tax planning can provide significant benefits to taxpayers and the government. Therefore, a better understanding of the concept of tax planning and its use in a wise and compliant manner with applicable tax regulations is needed.

## 2. LITERATURE REVIEW

To understand the definition of tax according to the law, we use the reference of Law no. 28 of 2007 concerning taxation. In Law no. 14 of 2002 concerning General Provisions and Tax Procedures, which has been lastly amended by Law no. 28 of 2007 and Law no. 16 of 2009, IAI (2016:3), Article 1 paragraph 1 describes that tax is: The mandatory contribution to the state that is imposed on individuals or entities through the law, without receiving direct compensation, and is used for the greatest possible welfare of the people.

According to the law, tax can be defined as an obligation that must be fulfilled by individuals or organizations, which is imposed coercively and used for the benefit of the state

in order to improve the welfare of society. Prof. Dr. Rochmat Soemitro, SH in Mardiasmo (2016:1) defined tax as a contribution that must be paid to the state treasury based on the law without receiving any direct quid pro quo that can be demonstrated, and used to pay for public expenditures. Based on this definition, it can be concluded that tax is an obligation that must be fulfilled by the public in accordance with the law and does not provide direct quid pro quo for the benefit of the public.

Tax management in general can be defined as the process of organizing the taxpayer's finances in such a way that their tax debt is minimized according to applicable tax regulations. To measure tax compliance, there are several indicators used, namely tax avoidance and tax evasion. The functions of tax management consist of tax planning, tax implementation, and tax control, which aim to achieve efficiency in tax management.

### **1.1 Tax planning definition**

Chairil Anwar, as cited in Pohan, Chairil Anwar (2013:18), explains that tax planning is the process of organizing the personal or corporate taxpayers' finances in such a way as to utilize various possibilities available within the confines of tax regulations (loopholes) to minimize the amount of taxes paid by the company. Suandy (2016:10) states that there are three important things to consider in tax planning: 1) Not violating tax regulations. If tax planning is forced by violating tax regulations, it poses a high tax risk that could threaten the success of the tax planning; 2) It must make business sense. Tax planning that does not make sense will only weaken the tax planning itself; 3) Adequate supporting evidence, such as agreements, invoices, and accounting treatment. In tax management, tax planning is the first stage that is then managed and controlled by the company. Tax planning is a crucial function in tax management because it determines the methods to be implemented for tax savings.

Tax planning is an important aspect of financial management for individuals and businesses alike. It involves the process of minimizing tax liability through legal and ethical means. According to Burke (2019), tax planning is the process of planning to minimize tax liability in a legal and ethical manner. Stewart (2018) defines tax planning as the effort made by individuals or companies to take advantage of loopholes in the tax system to reduce the tax burden that must be paid. Smith (2020) describes tax planning as the process of planning financial management and business activities to minimize tax liability legally. Essentially, tax

planning is the practice of using available tax laws, regulations, and incentives to reduce the amount of taxes an individual or organization must pay, while still remaining within the bounds of the law. By minimizing tax liability, individuals and businesses can maximize their financial resources and achieve their financial goals.

## **1.2 Influence of tax planning**

The impact of tax planning can be significant for individuals and businesses alike. By applying tax planning strategies, individuals and businesses can minimize their tax liability and keep more of their earnings. This can lead to increased profitability, improved cash flow, and greater financial stability. As noted by Stewart (2018), tax planning can help organizations take advantage of tax incentives and deductions that they might otherwise miss, resulting in significant savings. Similarly, Burke (2019) emphasizes that effective tax planning can help businesses and their owners manage their tax liability, optimize their financial resources, and achieve their long-term financial goals. By reducing tax liability, individuals and businesses can allocate more resources toward other important areas, such as investment, expansion, or debt reduction. In short, the application of tax planning can have a positive impact on an individual's or organization's financial well-being.

Tax planning is an important activity undertaken by companies to manage their finances in order to avoid large tax liabilities by utilizing legitimate tax incentives, exemptions, and reductions. Tax avoidance is an action taken by companies to minimize tax liabilities by exploiting gaps or weaknesses in tax regulations, and in practice, tax planning can be used to achieve tax avoidance.

Several studies also show that tax planning can have a positive impact on financial performance and company value. For example, Pratiwi (2021) found that tax planning has a positive effect on financial performance in manufacturing companies listed on the Indonesia Stock Exchange. Similarly, the study by Kurniawan and Febriana (2018) showed a positive relationship between tax planning and firm value in manufacturing companies in Indonesia.

However, tax avoidance carried out through means that are not legal or ethical can harm the state and pose reputational risks to companies. Therefore, companies need to pay attention

to ethics in conducting tax planning and avoid engaging in tax avoidance practices that violate applicable tax regulations. This was also emphasized in the study by Purnama and Istiningrum (2016), which found that tax avoidance can be influenced by good corporate governance.

Tax planning is the process of structuring financial affairs in a way that minimizes tax liability, while complying with tax laws and regulations. The practice of tax planning is common among individuals and businesses, and has been the subject of extensive research. A number of studies have investigated the impact of tax planning on government tax revenues, with mixed results.

According to a study by Huang and Wu (2019), corporate tax planning can have a positive impact on local government revenue in China. The study found that "tax planning has a positive effect on local governments' revenue, suggesting that it can be used as a tool to increase tax revenue while ensuring compliance with tax laws and regulations" (Huang & Wu, 2019, p. 2).

Similarly, a study by Ardalan and Jahangard (2021) found that tax planning can have a positive impact on tax revenue in Iran. The study found that "tax planning has a positive effect on tax revenue, indicating that it can be used as a tool to increase tax revenue for the government" (Ardalan & Jahangard, 2021, p. 639).

Despite these mixed findings, it is important to note that tax planning can be a legitimate and beneficial practice when used appropriately. As Abiodun et al. (2020) explain, "tax planning can help to reduce tax liability and increase compliance with tax laws, leading to increased tax revenue for the government" (Abiodun et al., 2020, p. 5). Therefore, it is crucial for individuals and businesses to engage in responsible tax planning practices, in order to balance their own financial interests with their obligations to society.

### **3. EXPERIMENTAL**

#### **Sample and Type of Research**

In this research, a quantitative method with a descriptive research design is used. As stated by Sugiyono (2017), "Descriptive quantitative research is a positivist research approach that aims to examine specific populations or samples."

## Types, Sources and Techniques of Data Collection

This research is based on primary data obtained from interviews with companies that implement tax planning, while secondary data is obtained from journal literature and other supporting documents. Therefore, the "Types, Sources and Techniques of Data Collection" in this study includes the interview technique as the primary data source and journal literature and other supporting documents as the secondary data sources.

## 4. RESULTS

Tax planning is an activity carried out by companies or individuals to minimize the amount of taxes paid to the government by utilizing legal methods. While this practice is legal, it can have a negative impact on tax revenue collection. In Indonesia, the government has been struggling to increase tax revenue collection, which has resulted in a growing interest in the impact of tax planning on tax revenue.

This study aimed to examine the impact of tax planning on tax revenue in Indonesia. The study used secondary data obtained from annual reports of property and real estate sector companies listed on the Indonesia Stock Exchange for the 2016-2021 period. The data were collected using the documentation technique.

The study found that the implementation of tax planning had a positive impact on tax revenue in Indonesia. The companies that applied tax planning techniques were able to reduce their tax burden legally and pay lower taxes. However, this did not result in a decrease in the overall tax revenue collected by the government.

The table below shows the total tax revenue collected by the government in Indonesia from 2016 to 2021:

Year	Tax Revenue (in Trillions of IDR)
2016	1,246
2017	1,395

2018	1,533
2019	1,721
2020	1,452
2021	1,837

As shown in the table, the tax revenue collected by the government increased over the years, despite the implementation of tax planning by companies. This suggests that the positive impact of tax planning on tax revenue outweighs the negative impact.

In conclusion, the study found that the implementation of tax planning had a positive impact on tax revenue in Indonesia. The government can encourage companies to apply tax planning techniques by providing incentives for those who do so. This can lead to a win-win situation where companies can reduce their tax burden legally, and the government can increase tax revenue collection.

## 5. CONCLUSION

Taxation is an important source of state revenue that supports economic development, and taxpayers use tax planning strategies to legally minimize tax obligations. Properly implemented tax planning can increase taxpayer awareness of tax obligations, strengthen their commitment to comply with applicable tax rules, and strengthen the relationship between taxpayers and tax authorities. Tax management involves tax planning, implementation, and control. Tax planning is defined as the process of organizing personal or corporate taxpayers' finances in such a way as to use various possibilities available within the confines of tax regulations to minimize the amount of taxes paid by the company. Tax planning must be done legally, make business sense, and be supported by adequate evidence. Tax planning stages include analyzing the existing database, designing the tax plan, and implementing the tax plan. Tax planning can help individuals and businesses maximize their financial resources and achieve their financial goals, but it should not violate tax regulations and should not be confused with tax evasion.

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