

Advanced Taxation
Lecture 1
Introduction to Taxation
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- All governments share a responsibility, to varying degrees, to deliver essential services to their citizens, including maintaining a legal system, ensuring defense, providing healthcare, and developing infrastructure like roads. Financing these public services requires obtaining funds, with taxation being the primary method, although borrowing is also an option. Taxation is necessary to cover public spending and involves mandatory charges imposed on taxpayers, though it can serve additional social and economic purposes beyond funding government activities.
- In the 19th century, the prevailing notion was that taxes primarily served to fund government activities. However, throughout history and once again today, governments have employed taxation for purposes beyond fiscal needs. An insightful framework proposed by American economist Richard A. Musgrave delineates taxation's objectives into resource allocation, income redistribution, and economic stability. While economic growth, development, and international competitiveness are sometimes considered separate objectives, they generally fall within these three categories.
- Resource allocation, the first objective, is best served when tax policies refrain from disrupting market-driven allocations unless there's a compelling reason, such as the necessity to address pollution. Income redistribution, the second objective, aims to mitigate disparities in income and wealth distribution. Stabilization, the third objective, involves maintaining high employment and price stability through tax policy, government spending, monetary measures, and debt management.
- Conflicts may arise among these objectives. For instance, adjustments in tax levels or structures to enhance resource allocation may disproportionately affect low-income households, undermining redistributive goals. Similarly, highly redistributive taxes might impede the efficient allocation of resources needed for economic neutrality.
- Throughout history, taxation has been primarily driven by administrative needs, evolving from ancient levies like consumption taxes and tariffs to more complex systems such as property taxes during times of conflict. The transition from tax farmers to civil servants for collection marked a significant shift in taxation methods. Similarly, the Middle Ages saw the emergence of obligatory services and transit duties, reflecting evolving economic and social dynamics. Despite their historical roots, taxes have always been contentious political issues, fueling events like the American colonies' rebellion against British taxation and contributing to the French Revolution.
- Moreover, wars have profoundly influenced tax systems, often leading to the introduction of temporary measures like income and turnover taxes. The aftermath of

World War II saw these temporary taxes persisting into peacetime, highlighting the enduring impact of wartime policies on taxation. Even today, tax reform remains a hotly debated topic, particularly regarding income taxes, reflecting the ongoing influence of powerful pressure groups on shaping tax policies in many countries.

- Taxation entails moving funds or assets from individuals or the private sector to the government without offering direct compensation. It diminishes individual income and spending capacity, influencing microeconomics by changing consumption habits.
- Characteristics inherent in the concept of taxation in Indonesia are:

1. **Mandatory Contribution**

Every party, whether individuals or entities, has the same obligation to pay taxes. However, according to the applicable laws, this obligation can be fulfilled by citizens who meet the subjective and objective criteria as Taxpayers.

2. **Compulsory for Every Citizen**

This characteristic is one of the essential features of taxes that must be complied with when individuals or entities have met the subjective and objective criteria for tax payment. Under tax regulations, it is stated that if someone intentionally fails to pay taxes that should be paid, they may be subject to administrative sanctions or criminal penalties in accordance with the prevailing laws.

3. **Citizens Do Not Receive Direct Compensation**

Taxes are a means to equalize the income of its citizens. This differs from fees where when we receive a specific benefit, we must pay for the benefit received. Regarding taxes, if we pay taxes that are rightfully imposed on us, Taxpayers do not directly receive benefits from the taxes paid. Instead, Taxpayers can experience the benefits of taxes through the facilities provided by the government for the prosperity of its people.

4. **Strong Legal Basis**

In this regard, it means that taxation is a policy established by the government and enshrined in the national laws related to taxation, with binding and valid legal implications. Therefore, Taxpayers can exercise their rights and fulfill their tax obligations in accordance with the applicable laws and will face sanctions or penalties if they fail to fulfill their tax rights and obligations properly.

- Typically, governments levy taxes for three primary reasons: to provide public goods, ensure resource distribution, and stabilize the economy.
- Public goods encompass goods and services not efficiently provided by the private sector but essential for societal well-being. These include property protection by law enforcement, utilities like electricity, roads, and street lighting. Since people often won't pay directly for these necessities, the government assumes the responsibility of providing them at no charge, necessitating revenue generation to cover costs.
- Taxes serve not only to finance public goods but also for redistributive purposes, reallocating resources from the private sector based on societal needs. For instance,

funds may be directed towards social services to address wealth disparities, acting as a means of direct wealth redistribution.

- Another objective of taxation is economic stabilization, addressing fluctuations in employment, inflation, and currency values. Governments can utilize taxation as a tool to mitigate these fluctuations, exerting influence on economic conditions.
- Flexibility within the tax system is crucial for governments to effectively influence the economy. This flexibility enables governments to adapt to changing economic conditions. Hence, tax systems often encompass a variety of tax types to cater to different economic needs, ensuring responsiveness to dynamic economic circumstances.
- After understanding the inherent characteristics of taxation, it's time to explore the functions of taxes paid by taxpayers:

1. **Budgetary Function**

Taxation serves as a source of government revenue to finance various state expenditures. Essentially, governments require funds to fulfill routine state duties and execute development projects. These funds are acquired through tax revenue paid by registered taxpayers to the government. Taxes can be utilized for routine expenditures such as employee salaries, procurement of goods, maintenance, and more. Regarding development financing, funds may be sourced from government savings, derived from domestic revenue minus routine expenditures. It's imperative to augment government savings annually to meet the escalating demands of development financing, with an expectation that this augmentation will predominantly stem from the taxation sector. For instance, routine activities, state expenditures, employee salaries, development budgets, and others are financed through taxation.

2. **Regulatory Function**

Tax policies can assist governments in regulating economic growth. Through regulatory functions, taxes are expected to serve as a tool to achieve the welfare of its citizens. Regulatory functions encompass: Taxes can be utilized to curb inflation rates; Taxes can be employed to stimulate and enhance export activities, such as export taxes on goods; Taxes can provide protection for domestically produced goods, such as VAT; and Taxes can regulate and attract capital investments to bolster a more productive economy.

3. **Stability Function**

Taxes also function to aid governments in managing funds that can be utilized to implement policies related to price stability, thus effectively controlling inflation-related matters. To maintain economic stability, measures such as regulating currency circulation, tax collection, and effective and efficient tax utilization can be undertaken. For example, in the event of inflation, a country may establish

relatively higher compulsory levy rates. Conversely, during deflation, the country may set relatively lower compulsory levy rates.

4. Income Redistribution Function

Taxes collected by the government are subsequently allocated to fund public interests, including development projects aimed at creating job opportunities for citizens in need of employment, ultimately leading to increased income for the populace. For instance, national revenue may be utilized to establish new job openings in a specific region or area, thereby providing new income sources for the local population and subsequently boosting overall income levels.

- Generally, the tax collection system in Indonesia consists of three methods: the Official Assessment System, Self Assessment System, and Withholding Assessment System. To better understand these tax collection systems, here are their explanations:
 1. Official Assessment System

This tax collection system grants authority to the government (tax officials) to determine the amount of tax owed by taxpayers. This tax collection system is no longer in effect after the tax reform in 1984. Characteristics of this tax collection system include: tax liabilities are calculated by tax officials, taxpayers are passive, and tax debt arises after tax officials calculate the owed tax and issue a tax assessment letter.
 2. Self Assessment System

This tax collection system empowers taxpayers to calculate, report, and pay their owed taxes themselves. Characteristics of this tax collection system include: Tax liabilities are self-calculated by taxpayers, taxpayers are active in reporting and paying their owed taxes themselves, and the government does not need to issue tax assessment letters regularly unless in specific cases such as late reporting or payment of owed taxes by taxpayers, or when taxes that should be paid are not paid.
 3. Withholding Assessment System

This tax collection system delegates authority to third parties or withholding agents to deduct and collect the amount of tax owed by taxpayers. These third parties are entities other than the government and taxpayers.
- The tax collection system in Indonesia adheres to the principle of taxation, employing the self-assessment system and withholding system.
- Every tax has three essential elements: a base, a rate of tax and someone to pay it, a taxpayer.
- The tax base represents the subject of taxation, encompassing what is being taxed. Typically, taxation operates on four primary bases: consumption taxes on expenditures, wealth taxes on possessions, income and profit taxes on earnings, and poll or head taxes on individuals themselves.

- Assessing the impact of taxation heavily hinges on the tax rates imposed. Tax rates are frequently analyzed based on their average and marginal values. The average tax rate is derived by dividing the overall tax burden by the taxable base. Conversely, the marginal tax rate denotes the percentage applied to each extra increment of the taxable base.
- A proportional or flat tax rate maintains equality between the average and marginal rates, meaning the rate remains consistent for each additional unit of the tax base. For instance, many countries impose a flat profits tax rate on companies, irrespective of their taxable profits level.
- Conversely, a progressive tax rate features an average rate lower than the marginal rate, resulting in higher rates for larger tax bases. Personal income tax in numerous countries follows a progressive model, although recent trends involve reducing the degree of progression by simplifying the rate scale.
- Occasionally, a tax system exhibits a regressive scale where the average tax rate diminishes with an increase in the tax base value, resulting in a consistently lower marginal rate compared to the average rate. Although such regressive rates are rare, flat rate taxes like consumption taxes may adopt regressive characteristics concerning income, as the percentage of income allocated to taxes decreases with rising income levels. This peculiarity arises from consumption taxes being applied solely to spent income, potentially placing a heavier financial burden on lower-income earners who must utilize their entire income, unlike their wealthier counterparts.
- Every tax necessitates a taxpayer to bear its burden, and understanding the concept of a taxpayer typically involves distinguishing between the impact and the incidence of taxation. The legal taxpayer, as defined by legislation, is accountable for paying the tax and experiences its direct impact. On the other hand, the economic taxpayer is the one who ultimately bears the financial burden by parting with the cash.
- This differentiation leads to the classification of taxes into two main types: direct and indirect. Direct taxes, like departure taxes and income taxes, cannot be shifted to others, and the legal taxpayer must directly bear their burden. In contrast, indirect taxes, such as consumption taxes, allow the burden to be transferred to another party, typically the consumer, even though they are initially paid by a different entity like the seller of goods or services.
- When contemplating the taxpayer, it's essential to assess the structure of the taxpayer or tax entity. Questions arise regarding whether individuals exclusively bear the tax responsibility or if the tax liability can be shared among family members, in which case, the government's definition of 'family' becomes significant. Additionally, considerations extend to how governmental entities address other entities such as corporations, trusts, and partnerships.

- How does a government determine the combination of taxes to incorporate or revise in a tax system? Various established standards are used to assess taxes and tax systems, albeit described differently across different countries' tax literature.
- In the realm of taxation, equity is synonymous with fairness, suggesting that a just tax system is deemed favorable. Here, the perception of fairness holds considerable sway, often outweighing the actual fairness, as public perception significantly influences compliance and deters tax evasion.
- When it comes to individual taxpayers, fairness typically entails a tax structure aligned with their financial capabilities, reflecting their economic resources. Horizontal equity advocates for equal tax burdens among individuals with similar financial capacities, while vertical equity argues that those with greater financial means should bear a heavier tax burden. This principle justifies the implementation of progressive tax rates, which rise alongside increases in the tax base. However, assessing one's ability to pay presents challenges, prompting questions about which economic resources should be considered in determining an individual's tax obligations.
- Another approach to ensuring fair distribution of the tax burden is known as the 'benefit principle,' which suggests that taxes should be imposed based on the utilization of government services. However, attributing specific benefits to individual taxpayers can be challenging, as some benefits are not directly traceable, and quantifying them poses difficulties.
- The principle of economic efficiency, also known as neutrality, posits that taxes should not disrupt decision-making processes, such as choices related to employment, spending, saving, or investment. Ideally, taxes should remain neutral, allowing for rational business and commercial decisions free from tax-related influences. Achieving perfect neutrality is complex, though, as governments often intervene to shape behaviors by incentivizing or discouraging certain actions through tax policies.
- Taxes are imposed on individuals or entities that meet subjective and objective criteria with the aim of being a source of state revenue and used for the equitable distribution or renewal of various public facilities and infrastructure that can be enjoyed by all citizens. In terms of tax collection, the state cannot make arbitrary policies because tax collection involves justice, authority, and the rights of citizens. Therefore, guidelines or standards are needed so that tax collection can proceed smoothly and also not disadvantage any party. These guidelines can be referred to as the principles of tax collection. The following are some principles related to tax collection proposed by several experts.
- According to Adam Smith, the principles of tax collection are as follows:
 1. Equality: This principle states that in tax collection, the state should adjust taxes according to the taxpayer's ability and income. The state should not act discriminately or arbitrarily when collecting taxes from taxpayers. It implies that

- taxpayers with higher abilities and wealth should be taxed at higher rates, aligning with their economic capacity.
2. **Certainty:** This principle indicates that all tax collections must be based on applicable laws, so that those who violate tax regulations will face legal sanctions as per the law. Tax assessments should be transparent and in accordance with the law.
 3. **Convenience:** In this principle, tax collection should occur at the most suitable time for taxpayers (the best timing), such as when taxpayers receive their income or gifts. This aims to ensure that taxpayers do not feel burdened or inconvenienced by the taxes imposed.
 4. **Economy:** This principle pertains to minimizing the cost of tax collection as much as possible. It serves as a guideline to prevent the cost of tax collection from exceeding the tax revenue. It emphasizes the importance of accurate and proper tax collection to achieve the objectives of taxation.
- The following are the principles proposed by W.J Langen:
 1. **Ability-to-Pay Principle**

It states that the amount of tax imposed should be based on the taxpayer's income. Higher income earners should pay higher taxes, while those with standard or lower incomes should pay lower taxes.
 2. **Benefit Principle**

Tax revenues managed by the state should be used for activities that benefit the public interest. Taxpayers who contribute taxes to the state should benefit from what they have given to the government.
 3. **Welfare Principle**

This principle means that taxes collected by the state can be used to improve the welfare of its citizens.
 4. **Security Principle**

It states that under similar conditions, taxpayers should be treated equally and pay an equal amount of tax.
 5. **Minimal Burden Principle**

Tax collection should aim to be as minimal as possible compared to the value of the taxable object to avoid burdening taxpayers.
 - The principles proposed by Adolf Wagner are as follows:
 1. **Financial Policy Principle**

In this principle, tax revenues managed by the state should be adequate to finance or support all state activities.
 2. **Economic Principle**

This principle involves accurately determining tax objects, such as income tax, luxury goods tax, etc.
 3. **Justice Principle**

It means that tax collection should be without discrimination; under similar conditions, taxpayers should be treated equally.

4. Administrative Principle

This principle is more related to issues of tax activity certainty (when and where to pay taxes, etc.), flexibility in collection procedures, and the amount of tax collected.

5. Legal Principle

All tax collections must be based on applicable laws.

- Tax law is a collection of official and written regulations that govern the relationship between the government as the tax collector and the citizens as taxpayers. In this regard, the government, represented by the Directorate General of Taxes of the Ministry of Finance of the Republic of Indonesia, is authorized to obtain wealth from individuals in the form of tax payments to be managed and returned to the community. This indirect transfer can be made through public services, which will later be obtained from the state treasury.
- Tax law is a legal product and part of the legal science that regulates the rights and obligations of taxation from both the government and taxpayers that need to be complied with and implemented. Thus, tax law is inseparable from legal sanctions as consequences for the government (fiscus) or taxpayers to comply with these tax regulations. The mentioned consequences are legal sanctions in the form of administrative and criminal penalties.
- Tax law is defined as a set of regulations that cover the government's authority to take an individual's wealth and surrender it to the state treasury. Tax law regulates the relationship between the government and taxpayers because tax law is part of public law.
- Understanding tax law can provide guidance for tax law enforcers in using their authority and obligations in enforcing tax law. Conversely, this can also serve as a guide for taxpayers in fulfilling their obligations and exercising their rights to obtain legal protection as a consequence of tax law enforcement.
- Tax law is part of public law. Tax law in Indonesia adheres to the imperative doctrine. This means that tax collection cannot be postponed. When there is a tax objection submitted by a taxpayer whose tax has been determined by the government, before there is a decision from the Director General of Taxes regarding the acceptance of the objection, the taxpayer must first pay the tax as determined.
- Civil law regulates the relationship between one individual and another individual. Meanwhile, public law regulates the relationship between the government and its citizens. Public law includes Constitutional Law, Tax Law, Criminal Law, and Administrative Law. Based on these two points, it can be understood that the position of tax law is part of public law. Tax law regulates the relationship between the government as the tax collector and the citizens as taxpayers.

- Material tax law contains norms that explain actions, conditions, legal events subject to taxation (tax objects), the amount of tax levied (tax rates), as well as everything related to the emergence and extinguishment of tax liabilities and the imposition of sanctions in the legal relationship between the government and taxpayers. Material tax law consists of rules or various provisions of tax legislation related to the content of the relevant legislation. This material tax law explains about Tax Objects, Tax Subjects, and Tax Rates. Examples of material tax law include Value Added Tax (VAT), Income Tax (PIT), and Luxury Goods Sales Tax (VAT and Luxury Goods Sales Tax).
- Formal tax law is the law that pertains to procedures for realizing material tax law into a reality or implementation. This formal tax law includes procedures for determining the amount of tax liabilities, the fiscal authority's rights to conduct monitoring and evaluation. Additionally, it determines the taxpayer's obligation to maintain books, records, and procedures for submitting objections or appeals. Formal tax law explains the rights and obligations of taxpayers as well as the rights and obligations of the fiscal authority. Taxpayer rights can be seen in the Law, namely filing objections, requesting restitution, and filing appeals.
- **Consumption-based taxation** revolves around taxing individuals based on their expenditure on goods and services. Various forms of consumption taxes exist, with some imposed on producers, others on retailers, and some on both. Typically, consumption taxes are structured to be integrated into pricing mechanisms, thereby shifting the tax burden onto the final consumer of the products and/or services.
- The historical origins of taxation on consumption run deep, representing one of the earliest forms of levies. Indirect consumption taxes, dating back to ancient times, continue to serve as substantial revenue generators in many tax frameworks. These taxes are structured to cascade through successive transactions from production or creation to the eventual consumer. Initially, sellers hold the legal responsibility for the tax, incorporating it into the product's price and transferring it to buyers. Ultimately, the end consumer shoulders the primary weight of the tax burden.
- The scope of a consumption tax base can vary from broad to narrow. A broad-based consumption tax covers a wide array of goods and services with minimal exemptions, whereas narrow-based taxes target specific items of consumption, such as alcohol and tobacco. While these taxes primarily serve as revenue generators, they may also aim to influence consumer behavior, such as discouraging certain activities through "vice" taxes. It's not uncommon for both broad-based and narrow-based consumption taxes to coexist.
- Various considerations arise when determining the rate structure of a consumption tax. Will it be a single flat rate or a progressive system with multiple rates? Will different goods and services be subject to varying rates? Zero rates may apply to certain goods, like exports, while luxuries often face higher rates. A single-rate tax with a broad base

offers advantages such as increased revenue potential, simplicity, neutrality across consumer preferences and business types, and reduced administrative and compliance costs.

- Consumption taxes come in two primary forms: single-stage, levied once within the production-consumption cycle, or multi-stage, enforced at various junctures. While single-stage taxes offer certain advantages, challenges emerge when the tax is imposed prior to the final consumption stage, as it fails to account for the value added beyond that stage. This omission may result in untaxed services that are purely retail in nature, particularly if only a manufacturing sales tax is implemented.
- In contemporary times, the dominant type of consumption tax is the multi-stage tax, frequently resembling the European value-added tax (VAT) model. This tax is applied at every stage of production or distribution, calculated based on the value added at each step. Although the administrative workload associated with a VAT may be heavier due to the increased number of taxpayers and collection points, it tends to be less vulnerable to evasion since it's collected progressively throughout the production chain.
- A retail sales tax is collected at the final consumer point of sale. While theoretically yielding similar revenue to a VAT at the same rate, it's collected at one stage instead of progressively over the goods' life. Consequently, it involves fewer tax points and lower overall compliance costs. However, without the invoice and credit system of a VAT, it may be less robust in terms of oversight and accountability.
- **A wealth tax** can either be an annual levy on assets or a tax on the transfer of wealth, like inheritance and gifts. It's typically not aimed at generating revenue but rather at promoting fairness and efficiency in the tax system.
- Wealth taxes ensure that individuals with similar financial capacities contribute proportionally. Wealth ownership signifies status, access to credit, and security, factors that should be considered in determining taxable capacity. Additionally, implementing a wealth tax serves as a means to cross-reference income and capital gains taxes through the information disclosed in wealth tax declarations. Challenges associated with wealth taxes often revolve around asset valuation, which can be difficult, especially for assets lacking a readily available market value.
- Land and property taxes are often categorized as forms of wealth taxation and are typically enforced annually based on the assessed value of the land in question. Since land and property are immovable assets with fixed geographical locations, they offer a stable and easily identifiable tax base for local governments. Consequently, land and property taxes are favored revenue sources for these authorities.
- **Income tax** is imposed on an individual's earnings, encompassing various sources such as salaries, wages, rental income from property leasing, and profits from business activities. Income tax systems typically incorporate a range of deductions to

arrive at a net amount, commonly known as taxable income, which is subject to taxation.

- Taxes on individual income and corporate profits serve as significant revenue streams for most developed countries and are increasingly prominent in the tax systems of many developing nations. Various design considerations arise concerning income taxes, leading to substantial diversity worldwide.
- For instance, there's the debate over whether tax rates should be progressive, and if so, what the maximum rate should be and how many tax brackets should exist. More tax brackets generally result in smoother progression, potentially reducing the likelihood of taxpayers altering their behavior around tax thresholds, although this comes with added complexity.
- Additionally, there's the issue of determining the appropriate tax unit, whether it's the individual, married couple, or family. Countries opting for individual income taxation, coupled with progressive tax rates, may encounter challenges related to "income splitting," wherein individuals artificially shift income to family members to lower overall tax liabilities.
- The structure of an income tax system also involves making decisions regarding the composition of the tax base.
- **Capital gains** denote the profits gained from the appreciation in value of assets not regularly traded by the owner, such as real estate or investments, typically realized upon their sale. Whether a government includes capital gains in the income tax base depends on its stance on tax comprehensiveness. Some governments opt for a separate capital gains tax, while others integrate them into the income tax framework, often providing preferential treatment in terms of calculation methods or tax rates. For example, both the UK and Australia follow this approach.
- In some countries like Hong Kong, Korea, and Singapore, capital gains are not subject to taxation at all. However, this decision can lead to significant challenges in distinguishing between income and capital gains for tax purposes.
- In these jurisdictions, extensive rules are typically in place to determine whether a transaction should be classified as a trading or capital transaction. Various factors such as motive, transaction frequency, duration of ownership, and funding source are often considered to determine if an activity qualifies as trading, which is subject to income tax.
- Two specific challenges arise concerning the taxation of capital gains. Firstly, there is the issue of determining when capital gains should be acknowledged for taxation purposes. While most systems recognize gains upon realization, there's an argument for taxing increases in asset value annually to ensure a comprehensive income tax base, even without actual realization. However, realization is typically chosen as the trigger point for pragmatic reasons and due to valuation complexities, especially as discussed earlier regarding wealth taxes.

- The second challenge involves addressing inflationary gains. Various methods can be employed to exclude the inflation component of a capital gain from the tax calculation.
- In the realm of corporation tax, companies or corporations are typically regarded as distinct legal entities in most countries. This signifies that they possess an independent existence separate from their ultimate owners, the shareholders. Companies hold assets, generate profits, and assume liabilities autonomously, with shareholders generally lacking direct entitlement to these assets or profits. Shareholders' rights typically entail the management of the company on their behalf by appointed directors and the periodic receipt of a portion of profits in the form of dividends.
- Treating corporations as separate entities from their shareholders allows governments to directly levy income tax on them. Alternatively, some view corporations as conduits for profits passing to shareholders, enabling governments to tax only the shareholders initially, rather than the corporation itself. Many countries adopt a combination of these approaches as a compromise.
- Under the 'classical' or 'separate' system of corporate taxation, corporations are treated as distinct taxable entities from their shareholders. Corporate profits are subject to corporation tax at the corporate level regardless of whether they are distributed to shareholders. When these profits are distributed as dividends, they are taxed again in the hands of the shareholders, leading to potential economic inefficiencies due to double taxation.
- On the opposite end, a full integration system considers the company as a conduit, with company income taxed in the hands of the shareholder on an attribution basis. Company tax, if imposed initially, is seen as a prepayment of individual income tax.
- Advocates of the full integration model argue that the company is not separate from its shareholders but owned and controlled by them. They suggest that ability to pay should be related to natural persons, demanding an all-inclusive definition of income for horizontal equity.
- Partial integration serves as a compromise between the separate and conduit views of companies and their shareholders. It typically involves providing relief from dual taxation on distributed profits through methods such as dividend deduction, split-rate systems, dividend exemption, or dividend imputation. The latter has become prevalent and maintains the progressivity of the individual income tax rate scale by including the company tax attributable to dividends in the shareholder's taxable income and providing a credit or rebate for the company tax paid.
- In international business settings, it's typical to find operations managed by a network of companies under shared ownership. When devising a corporate tax system, one consideration is whether to treat these group companies as distinct entities for taxation or as a single taxpayer. While few nations permit total profit consolidation for taxation

across a group, many offer concessions for intra-group transactions and loss transfers among members.

- Types of taxes in Indonesia:
 1. According to category:
 - a. Direct tax: Tax whose burden cannot be shifted to others but must be a direct burden on the respective taxpayer.
 - b. Indirect tax: Tax whose burden can be shifted to others.
 2. According to nature:
 - a. Subjective tax: Tax based on its subject, followed by finding its objective conditions, meaning considering the taxpayer's personal circumstances.
 - b. Objective tax: Tax based on its object, without considering the taxpayer's personal circumstances.
 3. According to the collector:
 - a. Central tax: Tax collected by the central government and used to finance state households.
 - b. Local tax: Tax collected by local governments and used to finance regional households.
- Tax collection methods are based on three systems:
 1. Actual system: Taxation is based on real objects, so collection can only be done at the end of the tax year, after the actual income is known. The advantage of this system is that it is more realistic, but the disadvantage is that taxes can only be levied at the end of the period.
 2. Fictitious system: Taxation is based on a presumption regulated by law, for example, assuming that the income of a year is the same as the previous year, so the amount of tax owed for the current year can be determined at the beginning of the tax year. The advantage of this system is that taxes can be paid during the current year. The disadvantage is that the tax paid is not based on the actual situation.
 3. Mixed system: This system is a combination of the actual and fictitious systems. At the beginning of the year, the tax amount is calculated based on an assumption, then at the end of the year, the tax amount is adjusted to the actual situation. If the tax amount according to wealth is greater according to the assumption, the taxpayer must settle the difference. Similarly, if it is lower, the taxpayer can request a refund of the excess tax paid.
- Principles of tax collection in Indonesia:
 1. Residence principle: The state has the right to collect tax from all taxpayer incomes based on the taxpayer's residence.
 2. Nationality principle: Taxation is linked to the nationality of a country. This principle applies to every foreigner residing in Indonesia to pay taxes.

3. Source principle: The state has the right to collect tax on income derived from a country that imposes taxes.
- Every tax comes with compliance expenses, which are the costs incurred by taxpayers to meet legal obligations. These include hiring tax advisors for assistance and advice on reducing tax liabilities, whether through legitimate means or not.
 - Administrative expenses are the costs borne by the government to run the tax system. While compliance costs are shouldered by taxpayers and are less visible, they are challenging to measure accurately. Studies across different countries show that compliance costs vary widely among taxpayers, with smaller taxpayers often facing more burdensome costs compared to larger ones, such as a small business owned by an individual versus a multinational corporation.
 - Various types of taxes differ in the burden they place on compliance and administrative costs. This variability plays a pivotal role in shaping a tax system, including the selection and structure of taxes within it.
 - Tax authorities prioritize ensuring tax compliance to maximize revenue collection. Recent research has focused on tax compliance, recognizing limitations in traditional deterrence models. Studies suggest that actual taxpayer compliance often exceeds predictions made by such models, challenging the assumption that fear of detection and penalties drive tax payments.
 - Tax system administration has evolved from a command and control model to a more responsive approach, reflecting the impact of revenue authority strategies on taxpayer compliance.
 - Many tax administrations adopt a compliance pyramid model, tailoring administrative actions to taxpayer behavior. This model represents the distribution of taxpayer compliance levels, with educational and supportive interventions targeting the majority of compliant taxpayers at the base, and punitive measures aimed at the small segment resistant to compliance at the apex.
 - Tax avoidance involves legally minimizing tax obligations within the confines of the law, differing from tax evasion, where taxpayers fail to pay owed taxes. The acceptability of tax avoidance actions depends on whether they adhere to legislative intent.
 - Jurisdictions implement anti-avoidance rules to counteract tax benefits obtained through transactions primarily for tax purposes. The effectiveness of these rules relies on judicial support and cultural attitudes towards tax practices.
 - Tax policy encompasses government strategies for structuring and implementing tax systems, considering objectives like equity and efficiency. Decisions must align with broader social and economic priorities.
 - Comparing taxes across countries is complex due to differing economic, social, and institutional contexts. Evaluating taxes based solely on rates may overlook crucial

factors such as the tax base and taxpayer definition, particularly significant in assessing corporate tax rates.