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Core Tax Implementation: Ethical Considerations for MSME Tax Strategies

Diki Suganda, Irwansyah, Zaki Fakhroni
Master of Accounting, Faculty of Economics and Business, Mulawarman University
Jl. Kuaro, Gunung Kelua, Samarinda City East Kalimantan, Indonesia 75119

ABSTRACT : The Core Tax Administration System (CTAS) is a major reform in Indonesia's taxation landscape, aiming to enhance transparency, compliance, and efficiency by integrating taxpayer data through National Identity Numbers (NIK) and Taxpayer Identification Numbers (NPWP). While the system promises streamlined administration, it presents ethical dilemmas for Small and Medium Enterprises (SMEs), particularly regarding tax planning strategies. This study explores the tax planning decisions of Bapak LH, a Samarinda-based SME owner, as he navigates the complexities of the new system. Utilizing qualitative research methods and ethnomethodological analysis, this research investigates how Bapak LH adapts his business practices to avoid becoming a Taxable Entrepreneur (PKP), which would subject him to higher taxes and more complex reporting. The study highlights the ethical concerns surrounding tax avoidance strategies, the balancing of legal compliance with business sustainability, and the long-term implications for SMEs under the Core Tax system. The findings emphasize the need for transparency and ethical responsibility in tax planning, while also considering the challenges SMEs face in adapting to regulatory changes.

KEYWORDS : *Core Tax, Tax Planning, Ethical Dilemmas. MSME Tax payer*

I. INTRODUCTION

The The taxation system in Indonesia is experiencing a significant transformation, with the introduction of the Core Tax Administration System (CTAS), commonly known as Core Tax. This new digital tax system aims to improve taxpayer compliance by simplifying the processes of reporting, payment, and monitoring, ultimately creating a more integrated and transparent system. Core Tax integrates taxpayer data through the use of the 16-digit Taxpayer Identification Number (NPWP) or National Identity Number (NIK), which will allow for seamless data recording from various sources. This reform is seen as an essential step toward enhancing the efficiency of tax administration and ensuring real-time compliance monitoring by the Directorate General of Taxes (DJP) (Joselin et al., 2024; Rahmi et al., 2023).

While Core Tax promises to streamline tax administration, it has created ethical dilemmas for taxpayers, especially for Small and Medium Enterprises (SMEs). According to data from the DJP, in 2021, only about 2.08% of the total 64.2 million SMEs in Indonesia were compliant with tax obligations, a figure which has raised concerns among policymakers and practitioners alike. The enforcement of Core Tax starting in 2025 will automatically register all SMEs as taxpayers by linking their NIK with their 16-digit NPWP, thus eliminating any excuses for non-compliance. As a result, all transactions conducted by SMEs will be automatically recorded in the DJP system, further complicating tax planning and raising ethical concerns.

The launch of the e-Faktur 4.0 application in July 2024 is another critical milestone in this digital transformation. This update requires taxpayers, especially distributors, to include the 16-digit NIK or NPWP of buyers on every tax invoice. However, there are concerns that distributors may still find ways to bypass this requirement, highlighting the risk of non-compliance and fraud within the system. Despite these concerns, the primary aim of Core Tax remains to prevent the creation of flawed tax invoices, which will no longer be processed if they lack buyer identification.

The dilemmas faced by SMEs are not just legal, but also ethical in nature. The introduction of higher tax rates for taxpayers classified as "Taxable Entrepreneurs" (PKP) has led SMEs to confront difficult choices: comply with the tax system and face higher taxes, potentially endangering their business, or pursue strategies that involve evasion or avoidance, which could result in heavy penalties if detected. The ethical implications of these choices are significant, and the balancing act between legal compliance and business sustainability has created a complex challenge for SMEs.

II. LITERATURE REVIEW

2.1 *Prospect Theory*

Prospect Theory, developed by Kahneman and Tversky in 1979, explains decision-making under risk and uncertainty, challenging the assumption of rational decision-making in traditional economics. It suggests that individuals evaluate outcomes relative to a reference point, rather than based on absolute values. A key concept in the theory is loss aversion, where losses are felt more strongly than equivalent gains, influencing decision-making in uncertain situations. This theory also highlights the framing effect, where the way information is presented affects choices ((Abdellaoui et al., 2016; Hwang, 2021)).

2.2 *Core Tax Administration System*

The Core Tax Administration System (CTAS) is a digital tax reform initiated by the Directorate General of Taxes (DJP) to modernize tax administration in Indonesia. Launched as part of the broader Tax Reform Program, CTAS integrates taxpayer data and simplifies processes like reporting and payment. The system uses the 16-digit NPWP (Taxpayer Identification Number) or NIK (National ID Number) to record transactions, enabling real-time monitoring and enhanced compliance. This modernization aims to improve tax compliance, transparency, and efficiency for both taxpayers and tax authorities (Rahmi et al., 2023).

2.3 *Final Income Tax (PPh Final) for SMEs*

nal Income Tax (PPh Final) for SMEs in Indonesia provides tax relief through a simplified system, with a 0.5% tax rate for businesses with an annual turnover of up to IDR 4.8 billion. This policy was introduced to ease tax compliance for small businesses. However, as the final tax rate ends in 2024 for certain taxpayers, SMEs will transition to progressive tax rates, requiring more complex tax planning. This shift poses challenges for SMEs, especially those who are accustomed to simpler, lower tax rates (Andras Arsalna, n.d.)

2.4 *Tax Planning*

Tax planning is a strategy used to minimize tax liabilities by utilizing legal provisions and regulations. It helps businesses manage taxes efficiently while complying with the law. In Indonesia, tax planning has become increasingly important for SMEs, especially with the implementation of Core Tax. SMEs often use tax planning to avoid higher tax burdens or to comply with changing tax regulations. However, aggressive tax avoidance strategies can lead to ethical dilemmas, particularly when the strategies border on tax evasion ((Marques, n.d.; ZHUK & TOMASHEVSKA, 2019)

III. METHODOLOGY

3.1 *Research Design*

This study adopts a qualitative research design, aimed at exploring the behaviors, experiences, and perspectives of informants in a specific context ((Sekaran & Bougie, 2017)). The primary focus of this qualitative research is to understand the ethical dilemmas faced by SMEs in tax planning and to delve deeper into the strategies and decisions SMEs will implement to navigate Core Tax. Through qualitative design, the study reveals how SMEs navigate the complexities of tax dynamics and the ethical decisions involved in their tax planning strategies for Core Tax.

3.2 *Research Approach*

This research employs an ethnomethodological approach, a qualitative methodology that studies how individuals create and understand their everyday lives, focusing on the methods they use to make sense of their social worlds (Susilo, 2017). This approach is well-suited for the study as it enables a deep exploration of SMEs' behaviors and ethical dilemmas in tax planning for Core Tax. Ethnomethodology allows the researcher to observe responses, behaviors, and social interactions from the introduction of Core Tax through to tax planning practices in 2025, validating these observations with in-depth interviews.

3.3 *Informants*

The primary informants in this research are SME taxpayers registered and utilizing the PPh Final UMKM facility and he is Mr. LH

3.4 *Data Collection Techniques*

Data collection in this study involves several methods: observation, interviews, documentation, and triangulation (Nasution & Marliyah, 2023).

3.5 *Data Analysis Techniques*

Qualitative data analysis plays a critical role in identifying, organizing, and interpreting the meaning of the collected data. In this study, the analysis follows a four-stage process based on ethnomethodology, including indexicality, reflexivity, and accountability ((Garfinkel, 1967)). The first stage, indexicality, involves the researcher identifying and documenting both verbal and non-verbal expressions from SMEs that provide insights into their perspectives on tax planning for Core Tax. This may include comments about tax uncertainty, responses to changes in tax rates, and whether SMEs choose to remain non-PKP despite external pressures. The second stage, reflexivity, seeks to understand how the social structure and personal experiences of SMEs influence their decisions. The researcher will explore why SMEs might decide to maintain their non-PKP status or opt to register as PKP, taking into account factors such as low turnover, limited understanding of tax regulations, or financial risks. Finally, the accountability stage ensures the transparency and verifiability of the analysis. The researcher will present the findings clearly, supported by triangulated data from interviews, observations, and tax documents, guaranteeing that the results accurately reflect the participants' experiences and are credible.

IV. RESULT AND DISCUSSION

4.1 Portrait of SMEs: Struggling Amid Limitations and Challenge

In the dynamic economic landscape, Small and Medium Enterprises (SMEs) continue to be the backbone of Indonesia's economy. However, the journey of SME entrepreneurs is far from easy. As illustrated by the case of Bapak LH, an SME owner in Samarinda, entrepreneurs face numerous challenges, including intense competition, fluctuating market demands, and the complex regulatory environment. These challenges require SMEs to adopt innovative strategies to ensure survival and growth. Notably, taxation remains one of the most significant hurdles for many SME owners, demanding a deeper understanding and strategic approach.

Bapak LH's journey reflects the adaptive strategies entrepreneurs must employ to navigate these challenges. His initial business model of selling household items was increasingly unsustainable due to shrinking margins and growing competition. However, recognizing the need for change, Bapak LH pivoted his business towards selling higher-margin equipment such as generators, water filters, and pumps in 2017. This shift proved beneficial, as these products had more stable demand, despite being influenced by seasonal factors. Bapak LH expanded his market beyond Samarinda, reaching areas such as Bontang, Sangatta, Tenggarong, and Muara Wahau. This strategy of diversification and market expansion allowed him to maintain business operations and grow despite the fluctuating market conditions.

The fluctuations in business revenue—peaking at IDR 500 million to IDR 600 million during peak months, but dropping to IDR 200 million to IDR 300 million in off-peak months—present a challenge in cash flow management. Such volatility complicates long-term financial planning and highlights the importance of adaptive strategies, such as aggressive marketing during low season periods and careful inventory and capital management. Bapak LH's ability to identify and adapt to market needs demonstrates a fundamental business skill—strategic resilience.

Despite his business's progress, Bapak LH still faces challenges in financial recordkeeping. His bookkeeping system is rudimentary, limited to sales and purchase records, without capturing operational costs or other essential financial data. This lack of comprehensive accounting makes it difficult for him to accurately assess his business's financial health, impacting decision-making and strategic planning. The absence of detailed records on expenses and income presents significant risks, especially when seeking financing or investment opportunities, as it complicates the ability to measure profitability or operational efficiency. Furthermore, the incomplete financial records could pose serious complications during tax audits or when applying for loans.

In terms of taxation, Bapak LH complies with the tax regulations for SMEs by using the 0.5% final income tax (PPh Final UMKM) on monthly revenue. While this tax system is simple and convenient, it sometimes fails to fully reflect the business's financial situation. Bapak LH has occasionally reported his income below the IDR 4.8 billion threshold to avoid being classified as a Taxable Entrepreneur (PKP), which would subject him to more complex tax regulations and higher tax obligations. While this strategy may reduce his immediate tax burden, it raises long-term risks, including the potential for audits and the negative impact on his business's credibility and access to financial resources.

This case exemplifies the ethical dilemmas SMEs face in their tax planning. On one hand, strategies like underreporting income can provide short-term financial relief, but on the other hand, they undermine transparency and could result in legal and financial consequences. The decision-making process involves balancing the immediate benefits of lower taxes against the long-term risks of legal compliance and business sustainability. As Bapak LH's case shows, managing tax compliance and financial recordkeeping are not only critical for ensuring business growth but also for protecting the business from future financial and legal risks.

In conclusion, the portrait of Bapak LH's experience highlights the ongoing challenges faced by SMEs, particularly in managing financial records and complying with tax regulations. His adaptive strategies—pivoting business models, managing market fluctuations, and navigating the complexities of tax systems—serve as valuable lessons for other SMEs striving for stability and growth in an ever-changing economic environment. However, as demonstrated, the importance of ethical tax planning and transparent financial practices cannot be overstated in maintaining a successful and sustainable business.

4.2 At a Crossroads: Navigating a Path Full of Challenge

The implementation of the Core Tax Administration System (CTAS) in Indonesia has brought significant changes to tax administration, particularly for Micro, Small, and Medium Enterprises (UMKM). One such UMKM affected by this system is Mr. LH, the owner of a machinery and equipment store in Samarinda. Since its introduction, Core Tax requires every transaction Mr. LH conducts to be automatically recorded in the system, integrating the National Identification Number (NIK) of the buyer and the Taxpayer Identification Number (NPWP). This system enhances transparency but, on the other hand, tightens oversight and limits the flexibility Mr. LH previously had in adjusting his tax reports.

For Mr. LH, a system that is supposed to simplify tax administration has instead increased complexity. Prior to the Core Tax system, Mr. LH, like many other UMKM owners, had more room for maneuver in managing his income and expenses. This flexibility allowed him to adjust his financial reports, particularly to reduce his tax burden during less profitable months. However, the automatic recording of transactions under Core Tax removes much of this flexibility, forcing Mr. LH to report all of his income and expenses in a manner that leaves less room for adjustment.

One of Mr. LH's main concerns with Core Tax is its potential to force his business beyond the threshold that would require him to become a Taxable Entrepreneur (PKP). Becoming a PKP would mean Mr. LH would be obligated to collect Value Added Tax (VAT) from his customers, a situation he is eager to avoid due to the administrative burden and the potential increase in his product prices. As Mr. LH explained, the prospect of VAT is daunting, as it could erode his already slim profit margins, potentially making his products less competitive in the market.

Mr. LH's hesitancy to embrace full tax compliance under the new system is driven by the significant costs associated with the PKP status. He perceives the burden of maintaining accurate, detailed financial records for VAT reporting as overwhelming, especially given his business's relatively small scale and his limited resources. The introduction of this more complex system has intensified his concerns, and he finds himself at a crossroads: to comply with the new regulations and accept the additional administrative costs or to risk falling short of tax compliance in an attempt to preserve his business's financial stability.

His reluctance to fully embrace the system is also rooted in a broader sense of frustration with the lack of adequate training and guidance on how to navigate the new system. Mr. LH noted that, despite attending the Core Tax socialization events, he found the information provided to be too general, leaving him uncertain about how to practically apply the system's features to his business. This gap in understanding highlights the challenges many UMKM face when adapting to tax reforms, particularly when the regulations and technologies involved are more complex than what they were accustomed to.

Moreover, the social dynamics in Mr. LH's customer base, many of whom live in remote areas and are often reluctant to share their personal identification information, further complicate his situation. The requirement to collect National Identity Cards (KTP) from customers in order to generate tax invoices has sparked concern. As Mr. LH explained, many of his customers, especially those in rural areas, are not only hesitant to provide their KTP but may also not possess valid identification, adding a layer of uncertainty and potential for legal complications.

These challenges put Mr. LH in a difficult position, as he contemplates whether to maintain his non-PKP status or comply with the new regulations that might threaten his operational flexibility. His dilemma is further compounded by the complex and stringent reporting requirements under the new system, which, while designed to improve transparency and reduce tax evasion, impose heavy administrative burdens on small business owners like him.

The complexity of the Core Tax system represents a significant hurdle for UMKM like Mr. LH, who lack the resources to manage the detailed reporting and record-keeping required. The new system's focus on automatic transaction recording and stringent VAT compliance requirements have heightened the sense of being under surveillance, a feeling that many UMKM owners, including Mr. LH, find unsettling. This lack of autonomy in reporting their financials and managing their tax obligations can feel oppressive, particularly when coupled with the fear of incurring penalties for inadvertent errors or omissions in their tax filings.

In summary, Mr. LH's experience with the Core Tax system reflects a broader dilemma faced by UMKM in Indonesia: the tension between compliance with tax regulations and the need to protect the financial viability of their businesses. While the system aims to streamline tax administration and increase transparency, its complexities and burdens may inadvertently push small businesses to either avoid full compliance or take shortcuts in their tax reporting, which could undermine both their financial stability and their ethical standards.

4.3 The Ethical Dilemma in Tax Planning: Navigating Transparency and Compliance

The strategy employed by Mr. LH to distribute income among family members and carefully structure his business transactions in order to avoid becoming a Taxable Entrepreneur (PKP) raises several ethical questions. While tax avoidance is a common practice among businesses seeking to reduce their tax burden, the extent to which such strategies are ethically justifiable depends on the transparency of the operations and the integrity of the reporting.

From a legal perspective, the strategy of dividing purchases and revenue between different family members and using separate tax identification numbers (NIKs) appears to comply with the regulatory framework, provided that the transactions are accurately recorded and no fake transactions are involved. The aim here is to ensure that no single entity exceeds the threshold that would trigger the need to become a PKP, which would entail additional tax obligations, including the collection and reporting of VAT. This form of tax avoidance is often seen as a legitimate strategy within the confines of the law, as long as the practice does not involve fraud or manipulation of financial records.

However, the ethical concerns arise when the strategies employed, such as distributing the income among family members, do not reflect genuine business activities or operational changes. If the family members involved in the business are not actively engaged in the day-to-day operations, then the practice could be viewed as an artificial arrangement aimed solely at reducing tax liability. This could be seen as a manipulation of the tax system, where the intention is not to reflect the true economic reality of the business but rather to exploit loopholes in the law.

Such behavior could undermine the core principles of transparency and fairness in taxation. Ethical tax planning should not only be legally compliant but also align with the spirit of the law, which seeks to ensure that businesses contribute a fair share to the public finances based on their actual economic activities. By structuring the business in a way that minimizes the visible financial flow within one taxable entity, Mr. LH may be able to avoid higher tax obligations, but he could be accused of undermining the fairness of the system.

The concept of "loss aversion" in Prospect Theory also plays a significant role in Mr. LH's tax planning decisions. The decision to distribute income among family members and keep his total reported revenue below the PKP threshold reflects his desire to avoid the potential losses associated with higher tax rates and additional administrative burdens. As stated in his interview, Mr. LH is wary of the additional costs and complexities that would arise from becoming a PKP, and he is willing to take calculated risks—such as manipulating the structure of his business—to avoid these negative outcomes. This decision mirrors the behavioral insights from Prospect Theory, which suggests that individuals are often more motivated to avoid losses than to achieve gains.

While tax avoidance strategies like the one implemented by Mr. LH are legal, they raise important questions about the ethical responsibility of businesses to pay taxes in a way that reflects their true financial standing. Taxation is a critical tool for the government to fund public services and infrastructure, which ultimately benefits the economy and society at large. Therefore, businesses, especially those that are part of the UMKM sector, must weigh the financial advantages of tax avoidance against their broader social responsibility.

A more transparent and honest approach to tax reporting would ensure that businesses contribute to the public good while maintaining their operational integrity. In the case of Mr. LH, the challenge lies in balancing the desire to minimize his tax burden with the ethical imperative of contributing to the tax system in a manner that reflects the true scale of his business. If the goal of the tax strategy is simply to reduce the apparent size of the business for tax purposes, it could be considered ethically questionable, as it undermines the principle of fair taxation.

Moreover, while tax avoidance strategies can provide short-term benefits by lowering tax liability, they can also lead to long-term risks. As the Core Tax system becomes more sophisticated, it will become increasingly difficult for businesses to manipulate their revenue and expenses without triggering suspicion. Mr. LH's strategy of distributing income among family members to avoid the PKP threshold might initially seem effective, but the increasing transparency of the Core Tax system means that such strategies are likely to be more closely scrutinized by tax authorities in the future.

To ensure that businesses like Mr. LH's remain compliant with the law while also adhering to ethical standards, it is crucial for him to engage in ongoing consultation with tax professionals to ensure that his strategies align with the broader objectives of the tax system. While it is permissible for businesses to optimize their tax positions, they must do so in a way that is consistent with the principles of fairness, transparency, and accountability.

In summary, the tax planning strategy adopted by Mr. LH highlights the complex balance between legal compliance and ethical responsibility in the context of modern tax systems like Core Tax. While Mr. LH's efforts to maintain his UMKM status and minimize his tax burden are legal, they raise important ethical concerns regarding the fairness of the tax system and the transparency of business practices. As the system becomes more automated and integrated, businesses will need to be more mindful of not just the legal requirements but also the ethical implications of their tax strategies. By ensuring that their tax practices align with both the letter and spirit of the law, businesses can contribute to the sustainability of the tax system and the broader social good.

V. CONCLUSION

The implementation of the Core Tax Administration System (CTAS) in Indonesia represents a significant shift in the country's tax system, aiming to improve compliance and transparency. However, this transition has introduced complex challenges for Small and Medium Enterprises (SMEs), as evidenced by the experiences of Bapak LH. His strategic decision to distribute income among family members in order to avoid the Taxable Entrepreneur (PKP) threshold raises important ethical questions about tax avoidance and fairness in the tax system. While his strategies are legally permissible, they may undermine the spirit of fair taxation and transparency, raising concerns about the integrity of the tax reporting process.

This study underscores the need for SMEs to balance tax optimization with ethical considerations, ensuring that their practices contribute to the public good while adhering to legal requirements. It also highlights the increasing challenges that SMEs face as the Core Tax system becomes more automated and integrated. As businesses like Bapak LH's continue to navigate the evolving tax landscape, it is essential for them to engage in transparent, ethical tax planning that aligns with both the letter and spirit of the law. Moving forward, policymakers must ensure that the Core Tax system supports both compliance and fairness, creating a tax environment that fosters sustainability and contributes to the broader economic and social good.

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