

Tax as the foundation for Indonesia's Golden Development in 2045

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ABSTRACT

Taxes play a crucial role in infrastructure development, improving the quality of public services, and alleviating poverty, serving as the country's main irreplaceable income. However, optimizing tax revenues in Indonesia faces various complex and multidimensional challenges. The goal of this article is to review in depth the importance of taxes in efforts to achieve the vision of a Golden Indonesia 2045, an ambitious vision that covers various aspects of the nation's economic and social progress. This article will also examine strategies that can be implemented to increase tax revenues. It is hoped that tax revenues can be significantly optimized, thereby supporting sustainable financing of national development and realizing the vision of a Golden Indonesia 2045.

INTRODUCTION

The dream of become a large economic power in the world is the dream of every nation, including Indonesia. In Indonesia this dream is called the vision of Golden Indonesia 2045. This vision depicts a future where Indonesia becomes one of the largest economic powers in the world, with a high level of prosperity and strong global competitiveness. To achieve this ambitious vision, various aspects of national development need to be strengthened, including infrastructure, education, health and other strategic sectors. In this context, taxes play a very vital role as the main source of state income. Optimal tax revenue can be the key to financing various development programs needed to achieve these big goals.

However, efforts to optimize the Indonesian tax revenue are filled with obstacles, ranging from low levels of taxpayer compliance, non-optimal tax administration systems, to issues related to supervision and law enforcement. Facing this challenge, the Indonesian government needs to implement various effective strategies and policies to increase tax revenues. Reforming the tax system, digitizing tax administration, and increasing tax awareness among the public are some of the important steps that can be taken (James, S. R., 2016).

Within this article, the role of taxes in the attempt of achieving Golden Indonesia 2045 will be discuss along with its challenges and the strategies to overcome these challenges. With a deep understanding of the importance of taxes and appropriate efforts to increase its revenues, Indonesia can ensure the availability of adequate financial resources to support sustainable and inclusive national development.

LITERATURE REVIEW

Golden Indonesia 2045

"Golden Indonesia 2045" refers to a vision and aspiration for Indonesia to achieve significant economic, social, and developmental milestones by the year 2045, which marks the centennial of Indonesia's independence. This vision encompasses various aspects of national development, including economic growth, technological advancement, social welfare, environmental sustainability, and geopolitical influence.

The term "Golden Indonesia" signifies a prosperous and thriving nation, characterized by robust economic growth, high living standards, and global competitiveness. The year 2045 holds special significance as it marks 100 years since Indonesia proclaimed independence from colonial rule, making it a symbolic milestone for the nation's progress and development.

To realize the vision of Golden Indonesia by 2045, the Indonesian government, businesses, and society as a whole would need to work together towards achieving key objectives such as:

1. **Economic Growth:** Indonesia aims to become one of the world's top economies by 2045, with sustained high levels of economic growth, industrialization, and innovation.
2. **Human Development:** Ensuring access to quality education, healthcare, and social services for all citizens, thereby improving human capital and fostering inclusive development.

3. **Infrastructure Development:** Investing in modern infrastructure such as transportation, energy, and digital connectivity to support economic activities and enhance the quality of life.
4. **Environmental Sustainability:** Implementing policies and practices to address environmental challenges such as climate change, pollution, and deforestation, while promoting sustainable development practices.
5. **Technological Advancement:** Leveraging technology and innovation to drive productivity, competitiveness, and entrepreneurship across various sectors of the economy.
6. **Social Harmony:** Promoting social cohesion, diversity, and inclusivity to build a harmonious and resilient society that values unity in diversity.
7. **Geopolitical Influence:** Strengthening Indonesia's role and influence in regional and global affairs through diplomacy, trade, and strategic partnerships.

Achieving the vision of Golden Indonesia by 2045 would require concerted efforts from the government, private sector, civil society, and citizens, as well as effective governance, sound policies, and prudent management of resources. It represents an ambitious yet attainable goal that reflects Indonesia's aspirations for a brighter and more prosperous future for its people.

Taxes

Taxes are financial obligations imposed by governments on individuals, businesses, and other entities within their jurisdiction. These compulsory payments serve as the primary source of revenue for governments at the local, regional, and national levels, enabling them to finance a wide range of public expenditures and services that benefit society as a whole.

The purposes of taxes vary but typically include funding infrastructure projects, maintaining law and order, providing education and healthcare, supporting social welfare programs, and investing in national defense. By collecting taxes, governments can address societal needs, promote economic development, and ensure the well-being and safety of their citizens.

Taxes come in various forms, each with its own rules, rates, and methods of collection. Common types of taxes include income tax, which is levied on individuals and businesses based on their earnings; sales tax (or value-added tax), which is imposed on the purchase of goods and services; property tax, which is based on the value of real estate holdings; corporate tax, which applies to the profits of businesses; and excise taxes, which are imposed on specific goods such as alcohol, tobacco, and gasoline.

The taxation process typically involves several steps, including tax legislation, tax filing, assessment, and collection. Tax laws and regulations define who is subject to taxation, what activities are taxable, and how taxes are calculated and collected. Taxpayers are required to report their income, expenses, and other financial information to the tax authorities through tax returns. Tax authorities review these returns to ensure compliance with tax laws, and taxpayers are responsible for paying the amount owed within specified deadlines.

Taxes have significant economic, social, and political implications. They can influence individuals' and businesses' behavior, economic growth, income distribution, and government policies. Taxation is often a subject of debate and controversy, with discussions revolving around tax rates, tax loopholes, tax evasion, and the overall fairness and efficiency of the tax system.

METHODOLOGY

To achieve accurate results, researchers used several methods as follows

1. Literature Study

The literature studies method is a research approach that collects, studies, and analyzes various relevant literature to understand a particular topic or phenomenon (Zed, 2008). This research usually does not involve experiments or field data collection, but instead focuses on existing written sources such as books, journal articles, research reports, and other documents.

Advantage:

- a. Deep and Comprehensive: Enables researchers to collect and study broad and in-depth information from various sources.
- b. Cost and Time: No cost and time required for field data collection.
- c. Identifying Research Gaps: Can help find areas that have not been researched enough and require further research.

Limitations:

- a. Limited Available Data: Some literature need access to enter, limiting the availability and accessibility of relevant literature.
- b. Subjective Bias: The selection and interpretation of literature can be influenced by the researcher's subjective bias.
- c. No Primary Data: Does not involve primary data collection so may not reflect current or specific conditions.

2. Policy Analysis

The policy analysis research method is an approach used to understand, analyze and evaluate existing or proposed public policies. This method aims to understand the impacts of policies in society.

Advantage:

- a. Understanding the Policy Process: Enables a deep understanding of how policies are created, implemented, and evaluated.
- b. Provide Evidence-Based Recommendations: Policy recommendations are based on objective data analysis and comprehensive evaluation.
- c. Drive Policy Improvements: Help identify weaknesses in existing policies and provide suggestions for improvements or changes.

Limitations:

- a. Data Limitations: Limited data available can limit policy analysis.
- b. Subjective: Policy interpretation and analysis can be influenced by the researcher's subjective bias.
- c. Complexity of Policy Context: Complex policy contexts can make analysis and evaluation more difficult.

RESEARCH RESULT

1. Taxes Role to Achieve Golden Indonesia 2045

In order to reach Golden Indonesia 2045, large fund is need to support development of infrastructure and human resource. This fund comes from the nation revenue where 2/3 of Indonesia revenue in 2024 comes from taxes (Ministry of Finance, 2024). With this fact, taxes are crucial to provide funding for the nation development. Understanding the role of taxes in the nation development will help understand of why it needed to be optimized.

2. The Shortcoming in Indonesian Tax System

Like many other government policies, Taxes do have some shortcomings. These shortcomings become obstacle to reach the vision of Golden Indonesia 2045. Many of these shortcomings came from the tax system itself or from the general public. In order to optimize the nation tax revenue, these shortcomings need to be taken care of.

3. The Strategies to Optimize Indonesian Tax System

Several strategies are available to combat the shortcomings within the tax system. These strategies if follow correctly and efficiently will have a great effect in fixing and optimizing the system. Some of these strategies also applied to fix the shortcoming in the general public. With an optimize and better tax system, it is hoped that it will increase the nation revenue to help funding national development.

DISCUSSION

1. Taxes Role to Achieve Golden Indonesia 2045

Taxes play a crucial role in achieving the vision of Golden Indonesia by 2045. Here are some ways in which taxes can contribute to this goal:

- a. **Funding Development Projects:** Taxes provide the government with the necessary revenue to invest in infrastructure, education, healthcare, and other development projects. These investments are essential for building a strong foundation for economic growth and prosperity.
- b. **Promoting Economic Stability:** By collecting taxes, the government can stabilize the economy by implementing fiscal policies such as deficit spending during economic downturns and austerity measures during periods of inflation. This stability fosters investor confidence and encourages long-term economic growth.
- c. **Redistributing Wealth:** Progressive taxation can help reduce income inequality by redistributing wealth from the affluent to the less privileged segments of society. This redistribution can help create a more equitable society and ensure that all Indonesians have access to basic necessities and opportunities for advancement.
- d. **Encouraging Investment and Innovation:** Tax incentives and breaks can stimulate investment in key sectors of the economy, such as technology, renewable energy, and manufacturing. By offering tax incentives for research and development (R&D) activities, the government can encourage innovation and foster a culture of entrepreneurship.

- e. **Ensuring Social Welfare:** Tax revenue can be used to fund social welfare programs such as social security, healthcare, and education. By providing these essential services, the government can improve the quality of life for its citizens and ensure that everyone has access to basic necessities.
- f. **Combatting Climate Change:** Taxes can be used to incentivize environmentally friendly behavior and discourage activities that contribute to climate change. For example, the government can impose taxes on carbon emissions and provide tax breaks for renewable energy projects, thereby encouraging the transition to a more sustainable economy.
- g. **Fostering Good Governance:** Transparent and efficient tax collection mechanisms can help promote good governance by reducing corruption and increasing accountability. By ensuring that taxes are collected and used effectively, the government can build trust with its citizens and create an environment conducive to economic growth and development.

2. Shortcoming in Indonesian Tax System

The Indonesian tax system, like any system, has its shortcomings. The following are some common criticisms and challenges:

- a. **Low Tax Compliance:** One of the significant challenges is low tax compliance. Tax evasion and avoidance are prevalent due to various reasons such as complexity in tax regulations, inadequate enforcement, and lack of awareness among taxpayers.
- b. **Informal Economy:** A significant portion of Indonesia's economy operates in the informal sector, where transactions are often conducted in cash and are not properly documented. This informal economy leads to a significant loss of potential tax revenue.
- c. **Complexity and Uncertainty:** The Indonesian tax system is perceived as complex and sometimes inconsistent. Tax laws and regulations can be challenging to navigate for both businesses and individuals, leading to compliance issues and disputes with tax authorities.
- d. **Tax Administration Challenges:** Tax administration in Indonesia faces challenges such as outdated technology, limited resources, and capacity constraints. This can result in inefficiencies, delays in processing tax returns, and difficulties in enforcing tax laws effectively.
- e. **High Compliance Costs:** Compliance costs, including the cost of tax preparation, filing, and audit defense, can be significant for businesses, especially small and medium-sized enterprises (SMEs). These costs can act as a barrier to business growth and investment.
- f. **Tax Incentives and Exemptions:** The proliferation of tax incentives and exemptions aimed at attracting investment and promoting specific industries has led to a complex and sometimes distortionary tax system. These incentives can create loopholes for tax avoidance and may not always result in the desired economic outcomes.
- g. **Limited Tax Base:** The Indonesian tax base is relatively narrow, with a significant portion of the population either not paying taxes or paying

taxes at lower rates. Broadening the tax base while ensuring fairness and equity is a challenge for policymakers.

- h. **Corruption and Tax Evasion:** Corruption within the tax administration and among taxpayers remains a concern in Indonesia. Tax evasion schemes, including bribery and collusion, undermine the integrity of the tax system and contribute to revenue losses.

3. Strategies to Optimize Indonesian Tax System

Optimizing the Indonesian tax system requires a multi-faceted approach that addresses various challenges and leverages opportunities for improvement. Here are some strategies that could help optimize the Indonesian tax system:

- a. **Simplify Tax Laws and Procedures:** Simplifying tax laws and procedures can reduce compliance costs and make it easier for taxpayers to understand and comply with their obligations. This may involve consolidating and clarifying existing tax regulations, streamlining tax filing processes, and providing user-friendly guidance and resources to taxpayers.
- b. **Enhance Taxpayer Education and Awareness:** Improving taxpayer education and awareness programs can help increase voluntary compliance and reduce tax evasion. These programs can include outreach initiatives, workshops, and online resources aimed at educating taxpayers about their rights and responsibilities.
- c. **Strengthen Tax Administration:** Investing in technology and capacity building within the tax administration can improve efficiency and effectiveness in tax collection and enforcement. This may involve implementing digital systems for tax filing and payment, enhancing data analytics capabilities for risk assessment and compliance monitoring, and providing training and professional development opportunities for tax officials.
- d. **Broaden the Tax Base:** Broadening the tax base by reducing exemptions and loopholes can help increase revenue and improve the fairness of the tax system. This may involve phasing out special tax incentives that are no longer effective or necessary, implementing anti-avoidance measures to prevent tax evasion, and expanding the coverage of existing taxes to include previously untaxed sectors of the economy.
- e. **Promote Voluntary Compliance:** Encouraging voluntary compliance through incentives and disincentives can help reduce tax evasion and improve revenue collection. This may involve offering incentives such as tax credits or discounts for compliant taxpayers, while imposing penalties and sanctions for non-compliance.
- f. **Combat Corruption and Improve Governance:** Addressing corruption within the tax administration and among taxpayers is crucial for restoring trust and integrity in the tax system. This may involve implementing anti-corruption measures, strengthening accountability mechanisms, and promoting transparency in tax administration processes.
- g. **Align Tax Policies with Economic Goals:** Ensuring that tax policies are aligned with broader economic goals can help promote sustainable

growth and development. This may involve conducting regular reviews of tax policies to assess their impact on economic efficiency, equity, and competitiveness, and making adjustments as needed.

- h. Collaborate with International Partners: Collaborating with international partners and organizations can help leverage best practices and expertise in tax administration and enforcement. This may involve participating in initiatives such as tax information exchange agreements and capacity-building programs facilitated by organizations like the OECD and World Bank.

CONCLUSIONS AND RECOMMENDATIONS

The role of taxes in shaping Indonesia's trajectory towards a Golden Indonesia by 2045 cannot be overstated. They serve as the lifeblood of the government, providing the necessary financial resources to fuel development initiatives, foster economic stability, and ensure social welfare programs. Despite their fundamental importance, the Indonesian tax system grapples with several shortcomings that impede its efficacy and equity.

One of the primary challenges is the prevalence of low tax compliance, stemming from a myriad of factors such as the complexity of tax regulations, inadequate enforcement mechanisms, and a lack of taxpayer awareness. This results in significant revenue leakage, constraining the government's ability to fund essential services and infrastructure projects. Moreover, the informal economy remains a persistent obstacle, with a substantial portion of economic activities operating outside the purview of taxation, further exacerbating revenue losses.

The complexity and uncertainty surrounding tax laws and procedures also pose significant hurdles for taxpayers, particularly businesses and individuals. The convoluted nature of the tax system not only increases compliance costs but also creates opportunities for evasion and avoidance. Additionally, administrative challenges, including outdated technology and capacity constraints within the tax administration, hinder efficient tax collection and enforcement efforts.

To overcome these challenges and optimize the Indonesian tax system, a multifaceted approach is imperative. Simplifying tax laws and procedures is paramount to reduce compliance burdens and enhance transparency. Concurrently, efforts to enhance taxpayer education and awareness can empower individuals and businesses to fulfill their tax obligations effectively. Strengthening tax administration through investments in technology and capacity building is essential to improve efficiency and enforcement capabilities. Broadening the tax base by minimizing exemptions and loopholes can help expand revenue streams while promoting fairness and equity. Moreover, initiatives to promote voluntary compliance and combat corruption within the tax administration are crucial to restoring trust and integrity in the system. Aligning tax policies with broader economic goals is imperative to ensure that they support sustainable growth and development. Collaboration with

international partners and organizations can provide valuable insights and expertise to inform reform efforts.

In essence, by implementing these strategies, Indonesia can work towards building a tax system that is not only fair and efficient but also supportive of its long-term development objectives. Through concerted efforts to address the shortcomings and capitalize on opportunities for improvement, Indonesia can pave the way towards a prosperous and inclusive future envisioned in the Golden Indonesia aspirations.

ADVANCED RESEARCH

This research use literature and policy studies as the methods. These methods have limitation in data accuracy. The particular reason of choosing these methods is the researcher limited budget. In order to produce more accurate result, it is necessary to carry out more in-depth research using more suitable methods that can extract more accurate data.

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