

Analysis of Administrative Penalty for Late Issuing Tax Invoices in Indonesia: A Comparative Study from Vietnam

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ABSTRACT

This study analyzes and compares the administrative penalty for late issuing tax invoices between Indonesia and Vietnam. The existence of a penalty has not been a driving factor for taxpayers to fulfill their tax obligations. Article 14 paragraph (4) General Provisions and Tax Procedures Law regulates the tax penalty for late issuing tax invoices, the same as for those who do not issue invoices. The administrative penalty needs to be analyzed more and compared with other countries' practices. VAT penalty cannot necessarily increase the compliance of taxable entrepreneurs. This research uses primary and secondary data sources for the qualitative method. The results of this study indicate that tax penalties should be designed by looking at the level of taxpayer error. Vietnam has no administrative penalty for the late issue of tax invoices but differentiates more penalties for tax invoices according to the level of violation. Tax penalties in Indonesia should be designed by considering the level of taxpayer violation, as Vietnam regulates. Administrative penalties for late tax invoices should not be the same as those imposed on taxpayers who did not issue tax invoices. The study recommends that tax authorities re-design the administrative penalties policy regarding tax invoice violations.

Keywords: tax penalty; VAT; tax invoice; tax compliance; severity of penalty

INTRODUCTION

Tax administration penalties are often a tool to increase taxpayer compliance (Wijaya & Arifianto, 2021). Various studies show that this goal has yet to be fully achieved because it has not been a driving factor for taxpayers to fulfill their tax obligations (Morris, 2010). Though challenging to comprehend, Gordon (1996) thinks penalties are the most reliable tool for enhancing tax compliance. Tax regulations stipulate penalties, but the taxpayer could have inappropriate information about how it is calculated (Lopez-Luzuriaga & Scartascini, 2019).

Indonesia is a country where the tax revenues finance most state activities. Over the last ten years, taxes have become the primary source of revenue, and their share in the State Revenue and Expenditure Budget ("APBN") continues to increase (Ministry of Finance, 2024). Table 1 summarizes Indonesia's tax revenue (2014-2023), including target, realization, and achievement percentages.

Tax revenue realization in 2022 is around IDR 1,716.8 trillion, growing 34.3% compared to tax revenue in 2021, amounting to IDR 1,278 trillion; this figure has grown 19.3% compared to the previous year (CNBC, 2023). The tax revenue portion as of April 2023 consists of Income Tax from Oil and Gas (IDR 32.33 trillion), Income Tax from Non-Oil and Gas (IDR 410.92 trillion), Value-Added Tax on Goods and Services, and Sales Tax on Luxury Goods (IDR 239.98 trillion), Land and other Taxes (IDR 4.92 trillion) (CNBC, 2023). Value-added Tax (VAT) as consumption-based taxation occupies the second position with total revenue as of April 2023, amounting to IDR 239,98 trillion.

Table 1. Indonesia's Tax Revenue (2014-2022)

Year	Target (IDR trillion)	Realization (IDR trillion)	Percentage	Year	Target (IDR trillion)	Realization (IDR trillion)	Percentage
2014	1,072.37	985.12	91.86%	2019	1,577.55	1,332.66	84.48%
2015	1,294.26	1,060.86	81.97%	2020	1,198.82	1,072.11	89.43%
2016	1,355.20	1,105.97	81.61%	2021	1,229.58	1,278.65	103.99%
2017	1,283.60	1,151.03	89.67%	2022	1,484.96	1,716.76	115.61%
2018	1,424.00	1,313.32	92.23%	2023	1,718.03	1,869.20	108.80%

Source: DGT Report (2014), (2015), (2016), (2017), (2018), (2019), (2020), (2021), (2022); (Media Keuangan, 2024)

Referring to Figure 1 and Figure 2, Indonesia's tax ratio in 2021, based on OECD data, is 10.9%, under the average tax ratio of 29 countries in the Asia Pacific region (19.8%). Indonesia's tax ratio position is also below the average percentage of tax ratios for OECD countries (34.1%), with a 23.2 points gap. In 2020 and 2021, Indonesia is the second lowest in Southeast Asia after Lao (OECD, 2022; OECD, 2023a). Based on OECD data, Vietnam occupies the top position in Southeast Asia, with a tax ratio of 18.2% (2021) and 22.70% (2020).

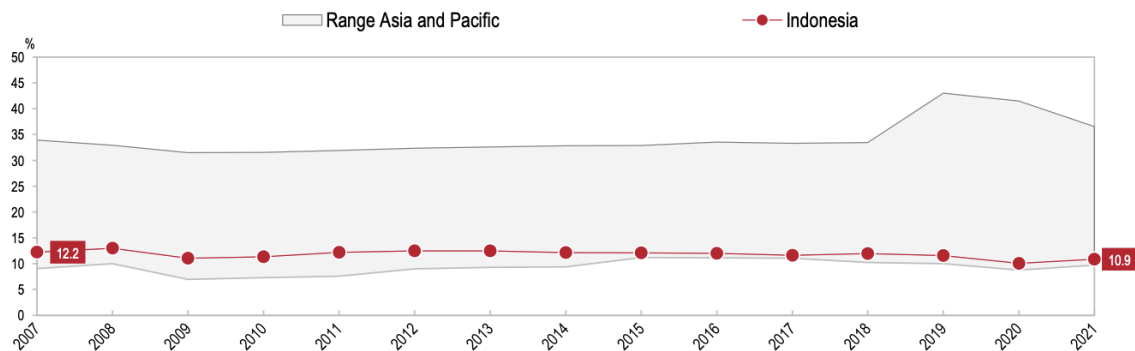
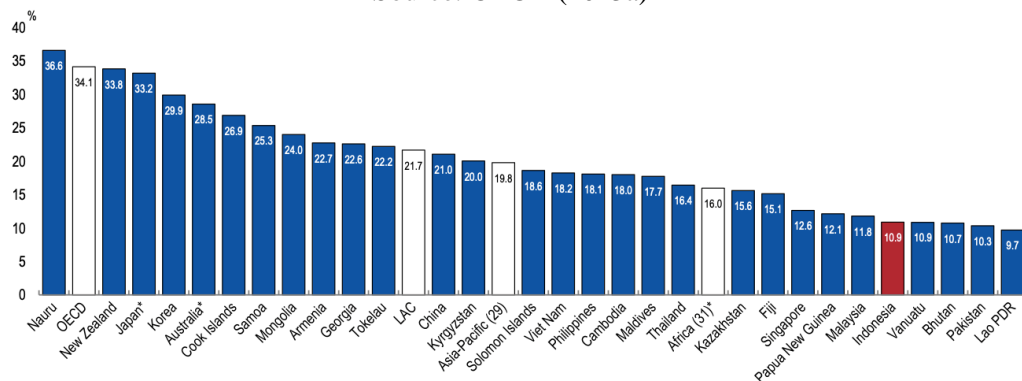


Figure 1. Indonesia's Tax Ratio for 2007-2021

Source: OECD (2023a)



* Data for 2020 are shown for Australia, Japan and Africa (31) average as 2021 data are not available. Note by the ADB: The ADB recognises "Kyrgyzstan" as the "Kyrgyz Republic". LAC refers to the average for Latin America and the Caribbean.

Figure 2. Indonesia's Tax Ratio for 2021

Source: OECD (2023a)

In 2021, goods and services taxes will be the Asia-Pacific region's primary source of tax revenues (OECD, 2023b). Value-Added Tax (VAT) or Goods and Services Tax (GST) was implemented in 175 countries as of June 2023 (Caragher, 2023). VAT is the most common general consumption tax in OECD countries and worldwide (Mengden, 2023, p. 20). Seven countries will charge VAT as part of their revenue: Kuwait, Qatar, Aruba, Guernsey, Bhutan, Malaysia, and Liberia (Caragher, 2023). There are also 19 countries without "VAT/GST" that collect sales tax: Myanmar, Malaysia, Timor Leste, North Korea, and others. In 2015, there were around 140 countries that collected VAT. In seven years, around 30 additional countries have been collecting VAT.

Only eight Southeast Asian countries implement VAT because Brunei Darussalam and Malaysia do not have VAT. Malaysia has Sales Tax instead of VAT/GST. Shortly, Malaysia will likely

reintroduce a VAT (Caragher, 2023). VAT or GST is the highest portion of the tax structure from Indonesia's total tax revenues in 2021 (29.2%) (OECD, 2023a). However, Indonesia's VAT performance in the ten years since promulgating the VAT Law in 2009 has experienced a relative decline (Sulfan, 2021). According to Sulfan, that condition is due to, among other things, the low VAT rate, a high threshold limit, the broad scope of non-VAT objects, and the VAT facilities for certain activities. In addition, Iswahyudi (2018) acknowledged that one of the causes affecting Indonesian VAT revenues, which decreased over the last two decades, is taxpayer non-compliance with tax regulations.

Wijaya and Surbakti (2024) conclude that the three factors influence the VAT Gap: shadow economy, economic growth, and trade openness. Economic growth may reduce the VAT Gap because it negatively affects it, based on the results's study. One solution from the government to pursue economic development is to create a favorable business environment so that the investment will come (Wijaya & Surbakti, 2024).

As an objective tax that adheres to the credit method, VAT collection in Indonesia uses documents such as tax invoices as proof of transactions. Implementing tax invoices as business documents is essential to pursue economic development. Article 14 paragraph (1) letter d and Article 14 paragraph (4) General Provisions and Tax Procedures Law ("KUP Law") regulate the tax penalty for late issuing tax invoices, which is the same as the penalty for those who do not issue invoices. The administrative penalty needs to be analyzed more and compared with other countries' practices. This study analyzes and compares the administrative penalty for late issuing tax invoices between Indonesia and Vietnam, a country with the highest tax ratio in Southeast Asia for 2020 and 2021. According to Fonoa (2023), there is no VAT penalty for late tax invoices issued in Vietnam.

Only a few previous studies have discussed penalties for late issuance of tax invoices, especially in Indonesia, either in general or explicitly comparing policies with those of other countries. One of the previous studies, held by Wijaya and Arifianto (2021), examines that administrative penalties for delays in issuing tax invoices in Indonesia are considered unfair; they must be re-examined to determine whether the rates need to be changed. So, this study has a significant purpose: to provide thoughts that enrich and criticize Indonesia's tax policy with a comparative study from another country.

LITERATURE REVIEW

Tax Invoice

Tait (1988, p. 4) recommends four ways to calculate tax on added value (value-added tax/VAT), which are:

- a. $VAT = t(Wage + Margin)$
- b. $VAT = t(Wage) + t(Margin)$
- c. $VAT = t(Output - Input)$
- d. $VAT = t(Output) - t(Input)$

The fourth method is called the indirect subtraction method (invoice or credit method). Tait (1988) says this method is the most practical and easy to apply. In line with the opinion of Tait (1988), Indonesia applies this method. This is because, in the credit method, the tax liability for added value is attached to the transaction, so legally and technically, it is much better than the other three methods.

Tax invoice establishes the tax due from the seller and the credit available to the purchaser (Keen & Smith, 2007). Thuronyi (1996, p. 224) defines a VAT invoice as a document issued by a taxable person who makes a taxable supply. Based on Thuronyi's explanation, the VAT invoice's form is an invoice, chit, till roll print, or other documents. A taxable person will record the supply and VAT payable on the VAT Invoice (Thuronyi, 1996, p. 224).

Administrative Law and Tax Penalty

Black's Law Dictionary in Maroni (2015) defines administrative law as a "body of law created by administrative agencies in the form of rules, regulations, orders, and decisions to carry out regulatory powers and duties of such agencies." The function of tax law is to regulate or as non-

budgetary or non-fiscal instruments (Anggara, 2016). Rahayu (2010) defines fines as administrative penalties if taxpayers violate the tax reporting obligations.

Administrative law is divided into two main instruments: supervision and penalty, which enforce the law (Mulyana, 2020, p. 137). The first element (supervision) aims to encourage citizens to comply with statutory regulations (preventive), while the second (penalty) aims to force compliance with provisions (repressive). According to Ridwan (2006), types of penalty in administrative law are (1) Bestuurdwang (government coercion), (2) withdrawal of decision, (3) imposition of administrative fines (bestuurskijke boetes), and (4) imposition of forced money (dwangsom) (Mulyana, 2020, p. 137). Meanwhile, Indonesian tax provisions apply three administrative penalties: fines, interest, and increased penalties.

Administrative Penalty

Administrative penalties are intended to correct violations committed by violators (situative), while criminal penalties other than situational also have a punitive character, which causes suffering to violators (Mulyana, 2020). The penalties depend on the relationship between the government and its citizens, so the government can impose penalties on citizens who violate the rules without going through the public prosecutor's institution (openbaar ministerie) (Remmelink, 2003). Administrative penalties are reparatory and aim to restore the original situation; in this case, administrative penalties are applied without going through a judicial process (Mulyana, 2020).

According to Wilks and Pacheco (2014), tax authorities must conduct tax audits and impose penalties for non-compliance (deterrence model) to prevent tax evasion; there is also an assumption by Andreoni et al. (1998) that taxpayers will not report and pay taxes if there is no enforcement (Saptono, Khozen, & Ayudia, 2021).

Severity of Penalties and Fairness

Flood and Rowell (2017) classify violations into three levels: (1) careless, (2) deliberate but not concealed, and (3) deliberate and concealed. The IMF study by Tait (1988) shows that most countries apply penalties if taxable entrepreneurs do not issue tax invoices or when taxpayers commit "fraud." Under Chapter VIII of the 2007 KUP Law, Indonesian criminal provisions in tax cases are the last resort (*ultimum remedium*), and administrative and civil penalties are applied first (Mulyana, 2020, p. 239). Criminal penalties are applied as "the last resort" if the administrative penalties are ineffective. Tax administration penalties focus on guiding the taxpayer and aiming to increase taxpayer voluntary compliance, such as (1) warnings, (2) announcement of non-compliant taxpayers ("black list"), (3) loss of the taxpayer's administrative rights, and (4) administrative fines (Mulyana, 2020, p. 269).

The implementation of penalties in many countries has different results; it depends on each country's particular circumstances, social priorities, and history (Tait A. A., 1988). For example, penalties are not always a cost (Tait A. A., 1988, p. 318); in France, the penalty for late payment (3 percent for the first month and 1 percent for each succeeding month) is a deductible expense when calculating corporate income tax. Other penalties for under-declaration, bad faith, and fraud are not deductible for corporate income tax. In the tax invoice violation, Chile imposes a fine of five times the amount of the taxpayer's transaction if the taxpayer fails to issue a tax invoice for the taxable transaction.

According to Mulyana (2020, pp. 273-276), the stages of implementing tax penalties begin with the persuasion stage (coaching), a warning letter, the application of administrative penalties, and the imposition of criminal penalties. The coaching stage requires the account representative's role to assist taxpayers in completing their tax obligations. The fiscus conducted this persuasion activity through education, counseling, and appeals. These steps align with the self-assessment system implemented in the Indonesian tax system.

The tax authorities can carry out the second stage with verbal, written, and strong warnings (Mulyana, 2020). The application of administrative penalties as the third stage must be carried out according to the severity of the taxpayer's failure. Administrative penalties cannot be generalized, so they must be fair to the taxpayer's actions and degree of violation. Mulyana (2020, p. 274) explains the stages of imposing administrative penalties, starting with the loss of taxpayer rights,

followed by fines, interest, or increases. Eliminating taxpayers' rights must also follow the degree of administrative violation committed by the taxpayer.

The final stage, the imposition of the criminal penalty, is applied after the previous stages have been implemented for those who intend to damage the taxation system, reduce potential state revenues, or break into state finances through illegal activities (Mulyana, 2020, p. 276).

METHOD

The study uses a qualitative approach to describe a particular condition, phenomenon, or social indication (Oun & Bach, 2014). This article results from qualitative research using primary and secondary data sources. Primary data was captured by in-depth interviews with taxable entrepreneurs (R1 and R2), tax consultants (R3 and R6), tax analysts (R5), and tax authorities (R4). The in-depth interview was conducted in a very short period, so it only gathered six respondents.

According to Neuman, valid qualitative data types include statements, documents, and observations (2014). Besides that, qualitative research also accommodates secondary data from news coverage, television programs, and other mass media, as Bryman (2012) stated. This study uses secondary data from books, articles, reports, and news to strengthen the results and discussion section.

This study does not control for the research variables; however, it "...seeks to capture broad variability" (Corbin & Strauss, 2015, p. 362). The study in this paper aims to "...discovery, not hypothesis testing..." (Corbin & Strauss, 2015, p.362), so it can be concluded that this paper does not test the variables but finds them.

RESULTS

Tax Invoice as a Vital Document

Vietnam's tax authority stipulates the obligation to use e-invoicing (electronic tax invoice) since July 1, 2022 (Fonoa, 2023). Similar to Indonesian tax regulations, taxpayers must register and obtain a digital certificate before issuing e-invoicing. The registration process is held by the General Department of Taxation in Vietnam.

A respondent from a tax consultant (R6) agrees with the principal amount when calculating the administrative penalty for late-issue tax invoices. According to him, a tax basis as the principal of administrative penalty in Indonesia is reasonable because a tax invoice is a substantial document about "supplies" with the whole transaction amount. That is in line with Article 1 number 23 of the VAT Law, which states that a tax invoice is proof of tax collection made by the taxable entrepreneur who supplies the taxable goods or taxable services.

The Development of Administrative Penalty for Tax Invoices in Indonesia and Vietnam

A survey held by Indikator (2022) found that 46.20% of respondents in Indonesia were familiar with the penalty as a consequence of not fulfilling tax obligations. Administrative penalties in Indonesia regarding issuing VAT stipulated by tax law are summarized in Table 2. There are five tax law periods with some clause amendments. The revision is about the type of violation, the specific clause of the violation's type, and the fines. In the first period, administrative penalties for tax invoice violations were not stipulated by KUP Law (Law No. 6/1983) but regulated in VAT Law (Law No. 8/1983).

Table 2. Development of Indonesian Administrative Penalty for Tax Invoices

No.	Law	Non-Taxable Entrepreneur issued Tax Invoice	Taxable Entrepreneur did not issue a Tax Invoice	Taxable Entrepreneur late issued Tax Invoice	Taxable Entrepreneur issued incomplete Tax Invoice	Taxable Entrepreneur not reported Tax Invoice at the issuance period
1	VAT Law (Law No. 8/1983) [not stipulated in KUP Law]	2% of tax basis [article 14 par. (2)]	2% of tax basis [article 13 par. (8)]	--	2% of tax basis [article 13 par. (8)]	--

No.	Law	Non-Taxable Entrepreneur issued Tax Invoice	Taxable Entrepreneur did not issue a Tax Invoice	Taxable Entrepreneur late issued Tax Invoice	Taxable Entrepreneur issued incomplete Tax Invoice	Taxable Entrepreneur not reported Tax Invoice at the issuance period
	(Law No. 6/1983)]					
2	1 st amendment of KUP Law (Law No. 9/1994)	2% of tax basis [article 14 par. (4)]	2% of tax basis [article 14 par. (4)]	--	2% of tax basis [article 14 par. (4)]	--
3	2 nd amendment of KUP Law (Law No. 16/2000)	2% of tax basis [article 14 par. (4)]	2% of tax basis [article 14 par. (4)]	2% of tax basis [article 14 par. (4)]	2% of tax basis [article 14 par. (4)]	--
4	3 rd amendment of KUP Law (Law No. 28/2007)	--	2% of tax basis [article 14 par. (4)]	2% of tax basis [article 14 par. (4)]	2% of tax basis [article 14 par. (4)]	2% of tax basis [article 14 par. (4)]
5	Last amendment of KUP Law (Law No. 7/2021)	--	1% of tax basis [article 14 par. (4)]	1% of tax basis [article 14 par. (4)]	1% of tax basis [article 14 par. (4)]	--

Source: Law No. 8/1983, Law No. 6/1983, Law No. 9/1994, Law No. 16/2000, Law No. 28/2007, and Law No. 7/2021

On the other hand, Vietnam tax authorities have listed 72 administrative violations regarding tax invoices (Vu, 2020). Vietnam has a complex VAT System because it has many rates and exemptions (Giesecke & Tran, 2012). Giesecke and Tran (2010) find that the most complex VAT system in Southeast Asia is Vietnam (Giesecke & Tran, 2012, p. 1879). The most common violations committed by taxable persons are summarized in Table 3.

Table 3. Penalty for Tax Invoices in Vietnam

No.	Violations	Fines and Remedies
1	TE did not issue tax invoices for goods/services which are used for the purpose of promotions, advertisements, sample and employees' fringe benefits; except for internal rotation for continuous business operation	VND 500,000 (US\$22 or around IDR 320,000) to VND 1.5 million (US\$65 or around IDR 950,000)
2	TE issue e-invoices from electronic cash register without data-transferrable connection to tax authorities	VND 4 million (US\$173 or around IDR 2.5 million) to VND 8 million (US\$345 or around IDR 5 million)
3	TE did not submit periodic reports to tax authorities, about the use of tax invoices	1. VND 5 million (US\$216 or around IDR 3.2 million) to VND 15 million (US\$647 or around IDR 9.5 million) 2. Submission of reports on usage of tax invoices will be enforced
4	TE did not issue tax invoices to buyers	1. VND 10 million (US\$431 or around IDR 6.3 million) to VND 20 million (US\$862 or around IDR 12.6 million) 2. Issuance of tax invoices will be enforced
5	TE illegally using tax invoices or TE using illegal tax invoices	1. VND 20 million (US\$862 or around IDR 12.6 million) to VND 50 million (US\$2,157 or around IDR 31 million) 2. All illegal invoices must be destroyed

Source: Vu in Vietnam Briefing (2020)

There is no VAT penalty for the late issue of tax invoices in Vietnam, but more penalties for tax invoices are placed according to the level of violation. The administrative penalty should be designed reasonably and not burden taxable entrepreneurs. A comprehensive and fair penalty system in Indonesian tax law is crucial to boost compliance. So, tax penalties in Indonesia should be designed by considering the level of taxpayer violation, as Vietnam regulates.

Tax Administration and Enforcement

The administrative aspects sometimes become a “devil” in the policy. Jantscher and Silvani (1991) suggest some basic requirements to build a good VAT administration, one of which is a sound and effectively applied penalty system. Morris (2010) concludes that penalties are not always positively related to tax compliance. Taxpayers who have paid penalties often feel entitled to make mistakes again on their following tax return.

The tax authorities will conduct tax enforcement regarding the government's goal of gathering tax revenue in every country. Taxpayers pay taxes according to the law and supporting provisions administered by the tax authorities, so “tax enforcement” indicates tax collection based on tax laws (Kumar, Nagar, & Samanta, 2007).

Kumar, Nagar, and Samanta (2007, p. 107) assume that efficient tax enforcement has to take minimum deeds, which proposes a more voluntary compliance percentage from potential or maximum tax collections. Voluntary-compliant taxes have to occupy a higher percentage of the tax collection amount.

Wijaya and Arifianto (2021) found that the administrative penalty of the fine is aimed at the violation. The main goal is to stop the violation, which is procrastination in making the tax invoice. This delay could impact the late tax payment if the tax invoice is issued after the initial tax period has passed. Administrative penalties may significantly influence taxpayer awareness and compliance if implemented appropriately, quickly, and firmly compared to criminal penalties (Soemitro, 1991, p. 94).

VAT Compliance

Wijaya (2023) questions the effectiveness of tax administration sanctions regulation in increasing taxpayer compliance. Wu and Teng (2005) studied determinant factors regarding tax compliance degrees in 58 countries (including Indonesia) from 1996-2000. Those countries consist of OECD countries (26), the transition countries (7), and other countries (25). Surprisingly, those cross-country data indicate that the central aspect determining tax compliance is not the tax burden but noneconomic factors.

Wu and Teng classify the determinant factors of tax compliance into two: those that influence the anticipated benefits and costs of tax compliance and those for assessing government performance (2005, p. 399). The first category are marginal tax rate, inflation rate, and per capita GDP. The second category is the efficiency of government spending, corruption level of the government, and irregular payments.

Titaailla and Fidiana's study (2022) examines the determinant factors relating to tax compliance: sunset policy, tax amnesty, taxpayer awareness, tax socialization, tax knowledge, and tax penalties. In general, this study used 71 published articles in the research process. Five variables, except penalties, can be considered factors influencing taxpayer compliance.

Based on the meta-analysis results in Titaailla and Fidiana's paper (2022), penalties do not positively affect tax compliance. The study uses 22 articles as a sample from journals accredited in Scopus and Sinta 2 for the 2011 to 2020 period. The correlation between penalties and tax compliance was not coherent with the previous studies and the theory that sanctions increase tax compliance. Other studies find that the chance of tax inspection and audit strongly affects taxpayers' voluntary compliance behavior (Nguyen, 2022).

One respondent, a tax manager at a multinational company (R2), believes that sometimes, a taxable entrepreneur considers that a 1% penalty from tax basis is a small value, “nothing” compared to the sales target that must be achieved. The respondent also thinks that taxable entrepreneurs are already weary of taking care of many things to fulfill tax obligations. The amount of penalties for late issuance of tax invoices is not a consideration for taxpayers.

Severity of Penalties and Fairness

E-invoicing has not been able to detect potential delays in making tax invoices that have occurred so far (respondents: R5 & R6). Hence, the tax system still needs regulation of administrative penalties. Respondent (R6) believes that several tax administration penalties in Indonesia still focus on assessing violations on the formal aspect rather than the material aspect, even though material truth is a principle in tax law as stipulated in the elucidation of Article 76 of the Tax Court Law.

The same penalty amount for that violation (do not issue and late issue tax invoices) has been chosen for simplicity, ease of administration, and perhaps revenue productivity, as respondent (R5) said. The tax analyst (R5) explains that, in theory, penalties can be imposed to compensate for potential state losses. There is also the time value of money in penalties calculation.

One of the tax authorities, respondent (R4), examines that the administrative penalty for late issue tax invoices is fair enough because the fairness side has been shown in the amount of the interest penalty regarding how many months the taxpayer delay, as stated in Notice of Tax Collection ("STP"). If the taxpayer did not issue a tax invoice, the tax authority will use a maximum period to calculate the interest penalty amount.

R2, a taxpayer respondent, also believes delays in issuing tax invoices are sometimes part of the company's judgment based on business considerations. In this case, the company already knows how much penalty will be paid in the future. Even the company has recorded the provision cost of that penalty. This violation type indicates deliberation, as categorized by Flood and Rowell (2017).

Our respondents from the government's side (R4) suggest regulating fines considerably to increase taxpayer compliance. Suppose the taxpayer does the violation again repeatedly, with a significant transaction value. In that case, it should be imposed with the criminal penalty because there is an intention from the taxpayer to avoid the tax due. Besides, the respondent (R3) assumes that the penalty has burdened the taxable entrepreneur, so it should decrease to 0,2-0,5% on a tax basis because tax invoices' implementation should prioritize joint responsibility between seller and buyer.

Taxpayers' delay in issuing tax invoices may be because of a human error, and the taxpayers are not deliberately violating the rules. As a tax consultant, respondent (R3) assumes that there are three factors to analyze why taxpayers delay issuing tax invoices: how the company (taxable person) is administered, how good their knowledge about tax law is, and what kind of situation happens when transactions occur.

Unintentional factors (human error, lack of accuracy/carefulness, lack of knowledge about tax administration) and intentional factors about taxpayer violation may be hard to detect. However, the administrative penalty should be designed reasonably and not burden taxable entrepreneurs. A comprehensive and fair penalty system in Indonesian tax law is crucial to boost compliance. Respondent (R5) believes that if the penalty is differentiated moderately, the deterrent effect will differ and influence compliance level.

Although some argue that the administrative penalties for late-issue tax invoices are too low or too burdensome, the results of this study indicate that tax authorities need to re-examine the administrative penalties policy regarding tax invoice violations.

DISCUSSION

An essential part of the VAT collection procedure is issuing a tax invoice (Yamin & Putranti, 2011). A tax invoice is a valid document to declare a transaction between a taxable person and their counterparty. It is used in the audit process to match the taxpayer's data. As an objective tax that adheres to the credit method, VAT collection in Indonesia uses documents such as tax invoices as proof of transactions. The advantage of the credit method in VAT is that it is technically and legally more accessible. Tax invoices are used as proof of transactions (Input Tax and Output Tax), making the audit process more straightforward. One of the disadvantages of the credit method is that it can never calculate net VAT directly.

The KUP Law determines that tax administration sanctions are compensation by violators to pay state losses through fines, interest, and increased penalties (Mulyana, 2020, p. 139). Mulyana (2020, p. 237) assesses that law enforcement in the field of taxation is not only aimed at creating a

deterrent effect so that violations do not occur but carries the agenda of increasing state revenues. That statement is under Indonesian tax law's basic policies and politics.

Taxable entrepreneurs who are late in issuing tax invoices will undoubtedly impact the country's tax revenue when the state receives the VAT due. However, the fact is that taxable entrepreneurs, as part of the taxpayer, have paid VAT payable into the state treasury so that the state will receive the tax amount regarding the transactions. In this case, the state does not lose potential tax revenue. Besides, if the taxpayer does not issue a tax invoice for a transaction for which VAT should be due, the state does not receive VAT income as the transaction's value. If taxpayers fail to issue tax invoices, it potentially causes losses for the state.

There is no VAT penalty for the late issue of tax invoices in Vietnam. The VAT penalty in Vietnam regarding issuing tax Invoices: (1) a fine between (Vietnamese Dong/VND) 4 million and VND 8 million is imposed for issuing e-invoices without the DGT's approval or without the DGT's code; (2) a fine ranging from VND 10,000,000 until 20,000,000 if fail to issue invoices when required by law (Fonoa, 2023). According to Wijaya and Arifianto (2021), administrative penalties for delays in issuing tax invoices in Indonesia are considered unfair; they must be re-examined to determine whether the rates need to be changed. A comprehensive and fair penalty system in Indonesian tax law is crucial to boost compliance. So, tax penalties in Indonesia should be designed by considering the level of taxpayer violation, as Vietnam regulates.

In addition, Septiani (2015) assumes that the administrative penalty amount should be increased to encourage the taxable entrepreneur to comply with tax regulations and fulfill their obligation. Penalties policy is a law enforcement tool, but the most important one is that because tax is the most intimate relationship between the state and taxpayer, the relationship should be formed based on mutual awareness - and not because of fear and compulsion. (Rosdiana, Tambunan, & Inayati, 2020)

Administrative penalties regarding the obligation to issue tax invoices are necessary because tax invoices become a vital document in every transaction between a taxable entrepreneur and the counterparty. Yamin and Putranti (2011) also remarked that a core part of the VAT imposition procedure in the tax invoice-based system is issuing invoices in the correct form. Taxable entrepreneurs must issue tax invoices in two aspects: formal and material. Formal elements include tax invoice forms, content information, timeliness of issuance, technical issuance, and how to report in the VAT application ("e-faktur"). Meanwhile, the material aspect concerns the alignment of the tax invoice to the transactions carried out.

Taxpayers, as parties obliged to pay specific contributions or levies to the state, also have rights the government must fulfill. These two things, the obligations and rights of taxpayers, should be equal, balanced, and unbiased. Taxpayers have the right to access good public services, including security, health facilities, education, transportation facilities, and others, as mandated by law. Tax authorities are also responsible for being fair to taxpayers in the context of penalties. Providing inappropriate penalties will result in high costs of taxation (Rosdiana, Tambunan, & Inayati, 2020).

Mulyana (2020, p. 238) believes that tax law enforcement in Indonesia should promote tax principles, especially simplicity, equity, and certainty. The principle of simplicity and legal certainty means that the process of handling tax cases is running well so taxpayers can immediately obtain legal certainty regarding their cases. Meanwhile, the principle of equity means that the penalty given to taxpayers follows the level and degree of the error and prioritizes equality before the law (Mulyana, 2020, p. 238).

Apart from that, with the self-assessment tax system, the supervision process through the SP2DK mechanism and tax audits is still the best choice for the tax authorities because there is still a need for understanding and voluntary tax compliance in Indonesia. Setyowati et al. (2020) suggest adopting blockchain technology to improve the VAT administration system through technology. The system will enhance the DGT's role to monitor and track transactions effortlessly.

The penalty regulation should be designed to be complete, clear, firm, and straightforward; and should not have multiple interpretations. Most importantly, it can be implemented by taxpayers and the tax administration. Mulyana (2020, p. 239) said that the main agenda for resolving tax disputes is not criminalizing taxpayers but saving potential state revenues, so this study also suggests the below scheme of the administrative penalties regarding late issue VAT Invoice in Figure 3.

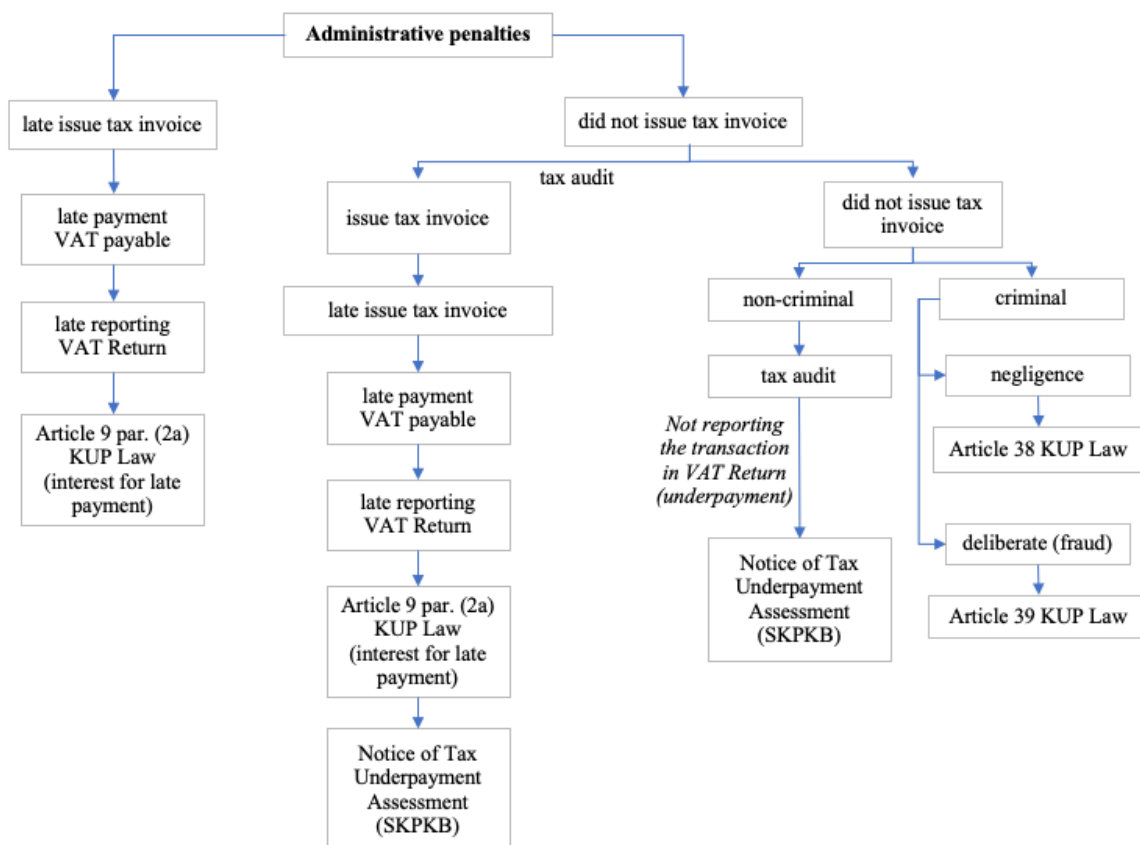


Figure 3. Administrative Penalties Recommendation

Source: Constructed by Authors

CONCLUSION

Some studies indicate that the penalty, as one of the tax burdens, did not affect tax compliance and the noneconomic factors become the central aspect determining tax compliance. VAT penalty cannot necessarily increase the compliance of taxable entrepreneurs. Vietnam has no tax penalty for the late issuing of tax invoices but differentiates more penalties for tax invoices according to the level of violation. The administrative penalty should be designed reasonably and not burden taxable entrepreneurs. A comprehensive and fair penalty system in Indonesian tax law is crucial to boost compliance.

Tax penalties in Indonesia should be designed by considering the level of taxpayer violation, as Vietnam regulates. Administrative penalties for late tax invoices should not be the same as those imposed on taxpayers who did not issue tax invoices. The study recommends that tax authorities re-design the administrative penalties policy regarding tax invoice violations.

This study has substantial implications for the legislator, DGT, or other related party. The tax stakeholders can use this study as a policy brief for better tax penalties policy in Indonesia, specifically about the VAT penalties for late issuing tax invoices. The more fair the penalty system that Indonesia has, the more taxpayers will comply, and the more tax revenue will increase.

In the preparation of this research, there are still some areas for improvement and limitations, such as the limited time and data used in the study, which was carried out only for about three months, so the author could not use more data and methods to be applied. This research only collects information from tax stakeholders in Indonesia.

Further research should use mixed methods (quantitative and qualitative methods) to gather more information about the VAT penalty issue. Researchers should also conduct in-depth interviews with more taxable entrepreneurs, policymakers, tax policy analysts, academics, and tax authorities for a more comprehensive view. The researcher should conduct an in-depth interview with another

country's tax stakeholder (Vietnam or others) to gain broader insight while comparing the two countries.

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