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Is It Necessary for Indonesia to Modify Its Corporate Tax Payment Model? A Comparative Study

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Abstract:
This study aims to suggest recommendations for Indonesia and other low-tax-ratio countries to enhance their corporate taxation system, specifically focusing on the tax installment system. While various research explored taxation, only limited attention was directed to the effectiveness of the corporate tax payment system. This paper uses a literature review from authoritative websites, related news, existing studies, and interviews with tax professionals. Data were analyzed by a comparative analysis of the corporate tax payment model between developing and developed countries that implement a self-assessment system; results from interviews were also utilized to strengthen the comparative findings. It is necessary to modify the tax installment regulations for Indonesian corporate taxpayers to improve their compliance, resulting in a subsequent influence on the tax ratio. The outcomes of this study consist of several insights for researchers and tax authorities about taxation system that have potential to be implement in other low-tax-ratio countries, particularly in Indonesia, to increase the tax ratio and tax revenue. This study utilizes both developing and developed countries as samples for a comparison focusing on countries with higher tax ratios, aiming to achieve optimal results.

Keywords: corporate taxpayer, installment tax, tax refund, self-assessment system, tax ratio.

印尼是否有必要修改企业纳税模式？比较研究

摘要：
本研究旨在为印度尼西亚和其他低税率国家加强其企业税收制度，特别是税收分期付款制度提出建议。虽然各种研究都探讨了税收问题，但对企业纳税体系有效性的关注有限。本文采用了来自权威网站的文献综述、相关新闻、现有研究以及税务专业人士的访谈。通过对实行自我评估制度的发展中国家和发达国家的企业纳税模式进行比较分析来分析数据；访谈结果也被用来加强比较结果。有必要修改印尼企业纳税人的纳税分期规定，以提高其合规性，从而对税率产生后续影响。这项研究的结果包括研究人员和税务机关对税收制度的一些见解，这些见解有可能在其他低税率国家（特别是印度尼西亚）实施，以提高税率和税收

收入。本研究以发展中国家和发达国家为样本，重点对税率较高的国家进行比较，力求达到最优结果。

关键词：企业纳税人、分期纳税、退税、自评制度、纳税比例。

1. Introduction

When assessing the effectiveness of tax revenue collection in a country, one of the metrics used is the tax ratio. In 2020, Indonesian tax ratio was 10.1%, positioning it as the second lowest among ASEAN countries and significantly lower than both the Asia-Pacific average (19.1%) and the OECD average (33.5%), as reported by the OECD in 2022. Multiple factors influence a country's tax revenue collection, among which is tax compliance (Chau, 2009). The amount of trust in tax authorities, as well as perceptions of fairness, are catalysts for improving tax compliance; these two elements jointly form the foundations of taxpayers' commitment to comply with tax regulations (Kirchler, 2007). The presence of trust in tax authorities and fairness has the potential to generate a favorable impact on enhancing tax compliance. Within the management literature, procedural fairness has emerged as the most reliable of individuals' trust in an organization (Hubbell & Chory-Assad, 2005).

The slippery slope theory examines the relationship between taxpayers and tax authorities in enhancing tax compliance. Perceptions of compliance can be categorized based on antagonistic and synergistic perceptions. Antagonistic perceptions arise when there is mutual distrust between taxpayers and tax authorities, leading to tax compliance being driven by external factors, primarily concerning fines and audits (Kastlunger et al., 2013), which trigger enforced compliance. Synergistic perceptions emphasize the cooperative interaction between taxpayers and tax authorities, which is characterized by mutual trust and commitment to the community (Kirchler et al., 2008). Through this perspective, voluntary compliance is more likely to thrive with taxpayers contributing more to their taxes due to a sense of obligation. Tax compliance consists of two main interconnected dimensions: the authority of tax agencies and trust in these agencies (Kirchler, 2007). Trust in tax authorities is defined as taxpayers'' general belief that tax agencies are benevolent and work for the common good (Kirchler et al., 2008). According to slippery slope theory the level of voluntary compliance rises as taxpayers' trust increases (Kirchler et al., 2008). Voluntary compliance of taxpayers is motivated by their trust in a fair government in tax procedures (Kastlunger et al., 2013).

According to a previous study conducted by George Abuselidze in 2020, taxation systems in developed countries highlight the importance of fairness, whilst developing countries focus on budget revenue goals and often overlook fairness in taxation principles. The optimization of the taxation system appears as an essential priority for fulfilling two primary objectives: maximizing budget revenue and ensuring taxpayer fairness (Abuselidze, 2020). The low tax ratio in Indonesia prompts further investigation into the country's taxation system in terms of the effectiveness of corporate tax payment models (Pricewaterhouse Coopers, (2022). In Indonesia, corporate tax installments are calculated based on the previous year's tax assessment. The issue with this system of corporate income tax installments lies in the absence of considerations for the effects of uncertainty (Feltham & Macnaughton, 2000). Payments made according to these installments are paid monthly, even though the exact amount of income tax owed remains unknown until the end of the tax year and the payable tax is determined (Feltham & Macnaughton, 2000).

Fairness becomes crucial in enhancing taxpayers' voluntary compliance, which plays a fundamental role in the effectiveness of the tax system in countries operating under a self-assessment tax system (Isa, 2014). The problem with Indonesia's corporate income tax installment system is its lack of effectiveness due to the failure to consider the uncertainty of economic conditions in the current year. This can lead to noncompliance as taxpayers are obliged to pay tax installments that do not reflect the actual economic circumstances. Therefore, this study aims to examine the following research question:

RQ1: What would be a fair corporate income tax payment model that could be implemented in Indonesia?

This study aims to depict the contrast between taxation systems in Indonesia, developing countries, and developed countries from the perspective of the corporate tax payment model. Although there is a lack of research on the effectiveness of corporate tax payment models, the issue of fair distribution of income tax burden has long been a central policy concern (Abuselidze, 2020). Hence, this study also intends to address the current gaps in literature. The ultimate outcome of this study will propose recommendations that are expected to be advantageous in reinforcing the taxation system in Indonesia and reducing the impact of uncertainty, which in turn will promote fairness. Furthermore, this study will serve as a valuable steppingstone for policymakers to improve the effectiveness of national tax payment and increase taxpayer compliance in countries with a self-assessment tax system.

2. Research Method

Data were collected using the library/desk research approach, which involved obtaining data and information from public sources and conducting interviews. Information was gathered from the official tax authority websites of each country, along with published research, academic journal articles, and reports relevant to the specific topic of this study. The data were then categorized according to country and subjected to a comparative descriptive analysisto provide a comparison of corporate tax payment models in Indonesia, Thailand, Malaysia, the United States, Australia, and the United Kingdom.

The research findings were also verified through interviews conducted with tax practitioners and academics in Indonesia who were already registered as certified tax consultants, discussing the effectiveness of the tax payment model in Indonesia, and exploring potential changes to the tax payment model by adopting a more equitable system that does not burden taxpayers (Koesmoeljana, 2021). The interview involved two participants: Mrs. Vera Dewi, S.E., BKP, a certified tax consultant as first respondent (R1), and Mr. Fany Inasius, M.M., M.B.A., BKP, CA, Ak, who is not only a tax consultant but also an academic specializing in taxation with substantial experience in the field, as second respondent (R2). Consequently, the insights gathered from the interview can be effectively employed to corroborate the research findings, particularly in the context of proposing best practices for Indonesia.

Among the ASEAN countries, Indonesia ranked second from the bottom in terms of tax ratio in 2020 (OECD, 2022). Thus, the countries chosen for this study have been chosen to provide representation of corporate taxation with self-assessment and an installment tax system that contributes to the country's economy. Specifically, Indonesia (10.1%), Malaysia (11.4%), and Thailand (16.5%) were included to represent both the ASEAN region and developing countries. In contrast, Australia (27.7%), the United States (25.5%), and the United Kingdom (33.5%) were chosen to represent developed countries. These selected countries, excluding Indonesia, were chosen because of their notably higher tax ratios in comparison to Indonesia, as well as their significant income from corporate income tax.

According to the slippery slope theory, synergistic perceptions are achieved when there is mutual trust and commitment between taxpayers and tax authorities (Kirchler et al., 2006). Taxpayer compliance is influenced by the authority of tax agencies and trust in these authorities (Kirchler, 2007), giving tax authorities the power to establish a fair tax system. When taxpayers perceive the tax system as fair, they are more willing to pay their taxes willingly, leading to an increase in a country's tax ratio. Conversely, a tax system perceived as unfair burdens taxpayers, leading them to resist paying taxes, resulting in decreased tax revenue and a lower tax ratio. Therefore, the research framework is as follows:

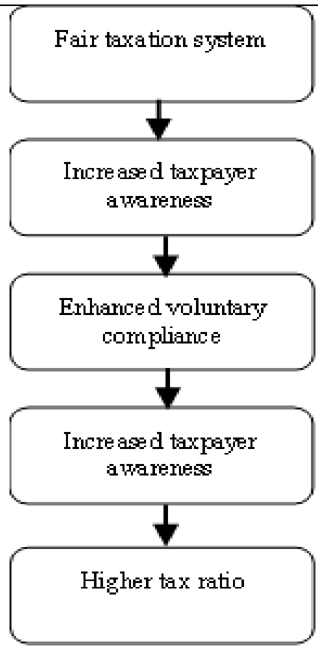

Figure 1. Research framework (Developed by the authors, 2023)

3. Results and Discussion

3.1. Taxation System

3.1.1. Indonesia

Income tax revenue from the corporate income tax sector reaches 28.9% of total tax revenues in Indonesia. This figure is significantly higher than the average of other OECD countries, which stands at 9% (OECD, 2023). Article 25 income tax installment policy has been in effect since 1983. The basis for calculating tax installments comes from the previous tax year's liability divided by the number of tax periods. This regulation has been in existence for 40 years with no substantial policy changes. The existing system's flaw is that the article 25 installments do not account for the current year's economic conditions, which may differ from the prior year. This can lead to overpayments and create challenges for corporate taxpayers when they are required to make installments during an economic downturn, as evidenced during the COVID-19 pandemic. Corporate taxpayers still need to make payments even when their company's cash flow is strained due to ongoing expenses during a business decline.

The same viewpoints are also expressed by R2, "For example in 2020 when pandemic hit, travel industry had no income. With no earnings and just paying salaries alone meant running at a loss. At that time, they had to pay taxes every month, which was unnecessary. If there was a monthly estimation method, it could be zeroed out immediately. However, with the request-based system, taxpayers had already paid for some months prior, and their cashflow was severely impacted. They were already at a loss having to pay wages, and on top of that, they had to pay taxes. Later, they had to pay consultants if they used them when claiming a refund."

Corporate taxpayers have the option to seek adjustments to their installment amounts. However, as this process involves making a formal request, it runs the risk of being declined by the Directorate General of Taxes if it doesn't align with the established regulations or if the provided supporting documentation is deemed insufficient for consideration. Even if the request is granted, there can be a delay between submission and approval, leaving the potential for overpayment despite efforts to modify or eliminate the installment. The concern among corporate taxpayers regarding overpayment often prompts them to engage in proactive planning to avoid such situations. Overpayment is a source of anxiety for taxpayers, as it may trigger a tax audit, incurring financial, psychological, and time-related costs.

3.1.2. Thailand

Income from corporate income tax in Thailand contributes 24% (OECD, 2023). The composition of tax revenues in Thailand follows a similar concept to Indonesia, with corporate tax contributions that closely resemble those in Indonesia. The tax authority in Thailand is also referred to as the Revenue Department (2022). Unlike Indonesia, Thailand does not have a monthly tax installment system for corporate income tax. Instead, corporate taxpayers are required to pay half of their estimated tax liability within one year of the accounting period, with the payment deadline set two months after the first six months of the tax period have passed.

In essence, this policy aims to make tax payments more in line with a company's actual financial performance during the year and reduce the likelihood of paying more taxes than necessary. Taxes paid in the first half of the year will be utilized as a tax credit at the end of the tax year, serving to reduce the total tax liability for that tax year. It also encourages companies to be proactive in estimating their tax obligations and making timely payments within two months after the first six months of the accounting period.

There will be penalties imposed on corporate taxpayers if the Revenue Department found that their tax estimation calculations are more than 25% lower than their actual taxable income without a clear justification. Corporate taxpayers will be required to pay an additional cost of 20% of the outstanding tax amount or half of the outstanding tax amount for that accounting period, or the tax that should have been paid under the circumstances. Claims for tax refunds can be made within a 3-year period after the tax year ends. Tax authorities may request corporate taxpayers to provide proper documentation and evidence for consideration.

The mechanism for calculating provisional tax payments for corporate taxpayers in Thailand minimizes the likelihood of overpaying taxes at the end of the tax year. This is because provisional taxes are calculated based on the current tax year's estimates, covering a relatively long period of up to 6 tax periods. As a result, the calculations provided closely approximate the actual figures.

3.1.3. Malaysia

Corporate income tax serves as the largest source of tax revenue contribution in Malaysia, accounting for 50.2% of the total tax revenue in the country (OECD, 2023). The tax authority in Malaysia, known as the Inland Revenue Board of Malaysia (IRBM) (2022), implements a corporate tax installment system that must be paid over a 12-month period. Corporate taxpayers are required to report their estimated tax calculations for the upcoming tax year, at most 30 days before the start of the new tax year using Form CP2014. Payments begin in the second month after the company commences operations based on the tax year period, with equal monthly installments. Payments are due by the 15th of each month, and if corporate taxpayers fail to make timely payments, a 10% late payment penalty is imposed on the installment amount that was not paid when it was due.

Tax installments paid by corporate taxpayers for a tax year are based on the estimated tax liability for that tax year. To illustrate, the tax payments a corporate taxpayer makes for 2023 are determined on the basis of their estimated tax liability for 2023. From a fairness standpoint, this approach is reasonably fair because it ensures that corporate taxpayers contribute taxes in accordance with their estimated obligations for the given year. However, in practice, corporate taxpayers are required to report the estimated tax liability and the installments to be paid for that year no later than 30 days before the tax year begins. This process may be less effective because it requires corporate taxpayers to estimate their tax liability on the basis of income projections for the tax year, yet these calculations are made before the tax year starts.

Modifications to the monthly tax installments can be made by submitting the e-CP204A form during the 6th and/or 9th months of the tax period. Corporate taxpayers are required to pay installments that are at least 85% of the previous year's estimated tax amount. However, this policy has limitations in its effectiveness. Even though it allows for installment adjustments, the changes can only be made starting from the sixth month, while installment payments have already been made 5/6 months earlier. Thus, potentially resulting in overpayment of installments.

If the final tax calculation shows a difference of over 30% compared to the installments paid, a corporate taxpayer will face a penalty equal to 10% of that difference. The formula used to determine the penalty due to the difference between tax liability and installments paid is as follows:

$$Amount\ of\ Tax\ to\ be\ Increased = [\,(AT - ET) - (30\%\ x\ AT)]x\ 10\%$$

where AT is actual tax payable, and ET is revised estimates of taxes payable.

3.1.4. Australia

Corporate income tax is the second-largest source of income and surpasses the OECD average, standing at the percentage rate of 19%. This figure is 10% higher than the OECD average of 9% (OECD, 2022). Australia's tax authority, known as the Australia Taxation Office (ATO), has introduced the Pay-as-you-go (PAYG) system. PAYG involves regular advance tax payments on business and investment income for corporate taxpayers. The frequency of PAYG payments can be either quarterly or monthly, depending on the corporate taxpayer's income. Monthly payments are applicable to corporate taxpayers with a gross turnover of AUD 20,000,000 or more. Corporate taxpayers are provided with various options for making PAYG installments, including:

a. *Option 1:* Paying a predetermined amount calculated by the ATO.

b. *Option 2:* Paying with a specific percentage rate calculated from the gross turnover multiplied by the rate. The installment percentage rate itself is determined by the ATO and is designed for businesses with fluctuating incomes. This allows companies to align their cash flow with their earnings, and the tax amount paid under the rate-based installment system will adjust according to the income received.

The ATO determines the installment amount or installment rate percentage based on the most recent data from the Annual Corporate Tax Return, which is further adjusted to account for potential income growth of taxpayers, linked to Australia's Gross Domestic Product (GDP). Corporate taxpayers are given the freedom to vary the tax amount they pay, which can be requested by the corporate taxpayer if they believe that they would overpay by sticking to the same installment amount. ATO pays close attention to the flexibility of corporate taxpayer tax installments. To ensure that corporate taxpayers do not underpay due to this flexibility and freedom, ATO imposes interest penalties if the tax installments paid are found to be less than 85% of the tax liability. The ATO continuously encourages taxpayers not to be concerned about their installment payments. In cases of overpayment, ATO promptly refunds the excess amount after conducting an examination of the relevant documents. If needed, ATO may get in touch with taxpayers to request additional supporting data.

3.1.5. The United States

In the United States, the tax authority goes by the name IRS, which stands for Internal Revenue Service (2023). The U.S. tax installment system operates on a quarterly basis with fixed payment amounts. For corporate taxpayers using the calendar year as their fiscal year, these payments are due on April 15th, June 15th, September 15th, and December 15th. These installment payments must include an estimate of the total tax liability for the entire tax year. Corporate taxpayers required to make tax installments are companies with an estimated tax liability of at least USD 500.

Corporate taxpayers have the option to use their income, expenses, and tax credits from the prior year as a starting point when calculating their expected tax liability for the current year. They can refer to the previous year's Annual Corporate Tax Return as a reference when completing Form 1040-ES to determine their estimated tax liability for the current year. It is essential for corporate taxpayers to estimate their expected income for the year. If the income estimation is overly optimistic, they have the flexibility to revise Form 1040-ES to recalculate the estimated tax liability for the upcoming quarter. Likewise, if their income estimation is too conservative, corporate taxpayers should reevaluate before making installment payments in the next quarter to prevent underpayment issues.

To avoid the risk of making insufficient payments that could lead to penalties, companies should either pay tax installments that are at most 25% lower than their estimated current-year tax liability or use the prior year's tax amount, whichever is lower. Penalties for underpayment are applied to corporate taxpayers whose tax installment payments fall more than 25% below the final tax liability. Companies with a minimum taxable income of USD 1,000,000 in any of the preceding three tax years are not allowed to use the prior year's tax as the basis for calculating installment payments, except when determining the initial installment. Instead, these corporate taxpayers must base their installment payments on the current year's tax liability.

The IRS also implements the Alternative Minimum Tax (AMT) to minimize tax avoidance. AMT functions as a tax credit paid by corporate taxpayers in addition to their regular tax liability), and the AMT tax credit will be used if corporate taxpayers fall short in payments during an audit. If AMT is not utilized, it can be carried forward as a tax credit with no expiration date and applied to any future tax liabilities. Although the implementation of AMT is a beneficial concept, it may not be suitable for implementation in Indonesia at present. Taxpayer compliance levels in Indonesia remain low, and taxpayers are still apprehensive about fulfilling their tax obligations, particularly due to concerns surrounding Article 25 Income Tax, where taxpayers fear overpaying might trigger tax audits. This viewpoint is also expressed by R2, "I believe AMT is not yet suitable for Indonesia... Let's focus on avoiding overpayments for now... Currently, taxpayers are anxious about payment-related issues."

3.1.6. The United Kingdom

The tax authority in the United Kingdom, referred to as HM Revenue & Customs (2023), implements a different installment payment system for corporate taxpayers categorized as either large or very large. A corporate entity is classified as large if its profits within a single accounting period range between GBP 1.500,000 and GBP 20,000,000, whereas those with profits surpassing GBP 20,000,000 in one accounting period are categorized as very large corporate entities.

For large companies, the payment of tax installments is divided into four equal parts, each with specific due dates as outlined below (assuming an accounting period from January 1st to December 31st):

a. 6 months and 13 days from the commencement of the accounting period (July 14th);

b. 3 months after the first installment (October 14th);

c. 3 months after the second installment (January 14th, which is 14 days after the end of the accounting period);

d. 3 months and 14 days after the conclusion of the accounting period (April 14th).

The tax installment mechanism for companies categorized as very large is as follows:

a. 2 months and 13 days after the commencement of the accounting period (March 14th);

b. 3 months following the first installment (June 14th);

c. 3 months following the second installment (September 14th);

d. 3 months following the third installment (December 14th).

The installment amount is determined based on the company's estimated tax liability for one accounting period. This estimated tax liability can change as the accounting period progresses. In case there is a revision to the tax liability, the installment amount paid must align with the latest revision. If, due to the revision, the estimated tax liability increases, an additional payment may be required to cover the shortfall in the previous installments. Late payments will result in an interest penalty of approximately 5%-6%, depending on the tax year. If the installment payments exceed the tax liability, the corporate taxpayer can either request a refund for the excess amount or offset it against future tax payments.

The implementation of quarterly tax installments for qualifying taxpayers is a beneficial strategy to alleviate the tax payment burden. Additionally, the flexibility to adjust the current-year tax installment amounts is a favorable practice that could be adopted in Indonesia. Nevertheless, adopting a quarterly tax installment system based on regulations designed for large corporations may not be well-suited for Indonesia, as it involves installment payments that span across different tax years. This could lead to confusion for Indonesian taxpayers, as they would have to make installments for the prior tax year while also fulfilling their monthly tax obligations for the current year.

3.2. Tax Recommendations

This study offers several recommendations for the Indonesian tax authorities, with a focus on fairness considerations for both tax authorities, taxpayers, and the government. It is of utmost importance to enhance trust among taxpayers toward the tax authorities, especially in a self-assessment tax system, where a fair and equitable system that doesn't burden taxpayers is essential. This should also be viewed from the tax authorities' perspective, where fairness toward taxpayers and the state is equally important. An equitable system will boost taxpayers'' trust, which is vital for increasing voluntary tax compliance, ultimately fostering a synergistic relationship between taxpayers and tax authorities that can lead to increased tax revenue.

The tax installment system cannot be abruptly changed to align with the regulations of other countries due to the potential financial impact on the country. A similar viewpoint was shared by R2 during the interview, where he emphasized the challenges of sudden changes, stating, "If there are sudden changed... or if we suddenly adopt a payment system like in Thailand, based on the actual circumstances or close to the actual circumstances, it's impossible because it directly affects the state budget, potentially leading to deficits." Therefore, it is crucial to exercise careful and cautious considerations, considering all aspects, to ensure the smooth operation of the tax system in line with the objectives of the tax authorities.

3.2.1. Recommendation 1: Calculation of Current-Year Installments

The estimation of taxable income can be derived from the actual business activities of the taxpayer during the first 4 months of the new tax year. Calculating annual income and expenses should still consider the most up-to-date data from the corporate taxpayer, as obtained from the Annual Corporate Tax Return. However, certain adjustments are necessary, including accounting for inflation rates and the country's GDP, which should be averaged over a span of several years, perhaps the past 2 or 3 years. This approach ensures that the resulting figures do not simply rely on the previous year's data without taking into consideration macroeconomic factors. This recommendation is also supported by both interviewees.

R1 expressed agreement with the idea of utilizing the current-year tax liability estimate, considering it an excellent approach. While R2 shared that after discussions with taxpayers, the general consensus is that they fear overpaying for the upcoming year. This is because their profit for the next year might decrease, but their calculations are based on the prior year's figures. They are apprehensive because any overpayment is likely to trigger an audit, which they find intimidating.

An alternative approach for corporate taxpayers is to offer them the flexibility to choose how they pay their installments, either based on a fixed amount or an installment rate. The installment rate is determined using the following formula:

$$installment\ tax\ \ rate\ x\ gross\ profit\ each\ month.$$

In this system, the monthly installment payments will vary based on the gross monthly revenue. The rates for these installments are determined by the tax authorities, ensuring that they remain under the control of tax authorities, and that corporate taxpayers cannot independently set the rates.

3.2.2. Recommendation 2: The Tax Installment Payment System

Introducing a corporate tax installment system that allows installment amounts to be determined on the basis of the estimated taxable income for the relevant tax year, rather than the income from the previous year, offers multiple options for the monthly tax installment payment scheme for corporate taxpayers. For instance:

a. Large corporate taxpayers (with gross revenue exceeding IDR 50,000,000,000) make fixed monthly installment payments, as outlined below:

$$tax\ installment = \frac{estimated\ tax\ for\ the\ current\ year}{12}$$

Concerning the payment of Article 25 Income Tax installments, they continue to be made on a monthly basis. The new installment amounts begin to be paid in May for the April tax period. Consequently, the calculation of these tax installments is disbursed from May to the following April. R2 states that the frequency of payments, whether monthly or quarterly, is not the primary concern. What truly matters is that the estimation aligns with the financial circumstances of the company, and having flexibility in determining the installments is crucial. Monthly tax installment payments for large corporate taxpayers are designed to ease their financial burden, as the required installment amounts can be quite substantial compared with those for medium-sized corporate taxpayers. Therefore, making monthly installments can help relieve the financial strain on the company and maintain a positive cash flow.

b. Quarterly tax installment payments are made by corporate taxpayers other than those categorized as large corporations (gross revenue not more than IDR 50,000,000,000).

$$tax\ installment = \frac{estimated\ tax\ for\ the\ current\ year}{4}$$

Corporate taxpayers who are not classified as large corporations, tax installment payments are made on a quarterly basis, with a maximum payment deadline of 1 month after the end of each quarter. These payments are determined by the estimated tax liability for the current year and are evenly spread across each quarter.

The installment payment plan can be structured as follows:

a. The initial payment, due on April 30th, comprising 25% of the estimated tax liability calculated by the corporate taxpayer, alongside a detailed breakdown of the estimated tax calculation.

b. The second payment, scheduled for July 31st, amounting to 50% of the total estimated tax liability, after deducting the first-quarter payments.

c. The third payment is due on October 31st, totaling 75% of the estimated tax liability, after subtracting the first and second-quarter payments.

d. The fourth payment is due on January 31st, representing 100% of the estimated tax liability, minus the payments made in the first, second, and third quarters.

If a corporate taxpayer seeks to modify the estimated tax liability amount, it naturally leads to adjustments in the monthly or quarterly installment obligations. Therefore, it is necessary to recalculate the installment amounts that the corporate taxpayer needs to pay becomes essential. If the corporate taxpayer has paid less in tax installments than required in previous periods, they will need to make additional payments to cover the shortfall. Conversely, if the previously paid tax installments exceed the revised calculation, the excess payment can be applied as a credit toward offsetting the remaining tax installment amount.

3.2.3. Recommendation 3: Flexibility to Change Installment Amount

Flexibility in adjusting the estimated tax liability should be allowed since Indonesia's tax system operates on a self-assessment basis. To prevent fraudulent activities or harmful tax planning that could negatively impact the state's revenue, interest penalties are applied in cases where a substantial discrepancy exists between the tax liability and the tax installments paid by corporate taxpayers. Consequently, the framework for reducing or ceasing tax installment payments can be structured as follows:

a. The application is submitted digitally through an online tax account.

Corporate taxpayers have the option to apply for revisions in their installment payments or to cease their monthly tax installment payments through an online process via their tax account on DJP Online. This request should include supporting documents that will be considered and verified by the tax authorities. Tax authorities are obligated to respond to these requests within one month of submission. Failure to do so will result in the corporate taxpayer's request being automatically approved.

b. The application is transformed into an announcement.

Corporate taxpayers submit a notification to the tax authorities regarding the reduction or discontinuation of their article 25 tax installment payments. Once the notification has been submitted, the corporate taxpayer can proceed to stop payments or reduce the installment amount for the next period without the need for prior approval from the tax authorities. Tax authorities hold the power to issue a cautionary letter to the corporate taxpayer if the reasons and supporting documents provided by the corporate taxpayer are not sufficiently robust. If the cautionary letter is ignored by the corporate taxpayer, a formal reprimand may be issued.

3.2.4. Recommendation 4: Maximum Difference between Installment and Final Tax Liability

To prevent underpayment of tax installments, the tax authorities can implement an interest penalty imposed on the difference between the tax installments and the final tax liability, as suggested by R2: "If by the end of the year, we discover an underpayment exceeding a certain consensus percentage, such as 25% or 20%, we can be subject to interest charges on that shortfall."

Considering the comparison with other countries used as reference points in this study, the permissible range for the maximum percentage difference between tax installments and final tax liability typically falls within the range of 15% to 30%. The formula used to calculate the amount of interest penalty is as follows:

$$tax\ penalty = [(AT - ET) - (DP(\%) x\ AT)] x\ PI\ (\%)$$

where AT is actual tax payable, ET is revised estimates of taxes payable, DP (%) is the difference percentage allowed on estimated tax and final tax liability, and PI (%) is percentage of interest penalty given.

4. Conclusion

Indonesia's corporate tax installment system lags when compared to other countries in estimating its tax installment amounts. This discrepancy is inequitable due to the dynamic nature of the country's economic circumstances each year, which triggers taxpayer concerns about potentially paying more than necessary and consequently facing tax audits. In contrast, countries such as Thailand, Malaysia, Australia, the United States, and the United Kingdom have already adopted corporate tax installment systems that utilize estimates of the current year's tax liability. These systems also include policy adjustments that align with the regulations specific to each country. Indonesia stands alone in utilizing the preceding year's taxable income computation as the basis for determining the current year's tax installments. Moreover, nearly all the countries investigated have implemented a maximum permissible difference between the installment amounts and the final tax liability to prevent underpayment. This practice, however, has not been applied in Indonesia.

The findings of this study can serve as a valuable starting point for tax authorities' efforts to enhance the effectiveness of tax installment payments. The initial recommendation focuses on establishing a more equitable basis for calculating the current year's tax installments, considering the uncertainties faced by taxpayers. The second idea relates to the installment payment system for corporate income tax, which aims to ensure that it does not burden corporate taxpayers while also benefiting national revenue. The third suggestion introduces the idea of flexibility for corporate taxpayers to adjust the current year's tax installment amounts. The fourth recommendation addresses the establishment of a maximum allowable difference between tax installments and the final tax liability to prevent underpayment.

The various suggestions outlined in this study can be utilized as input for tax authorities in other countries, also for the Directorate General of Taxes to develop tax installment payment system in Indonesia to be more closely aligned with actual conditions, thus promoting fairness for corporate taxpayers. An equitable system will enhance taxpayers' compliance, ultimately influencing the tax ratio and national revenue.

5. Limitations and Further Study

This study did not involve cross-referencing information with tax authorities as its focus was on proposing improvements to the fairness of the corporate tax installment system. Future research could employ triangulation by incorporating information from the tax authorities as authoritative tax sources and broaden the research's scope. This expansion might include evaluating taxpayer satisfaction with tax authority services, the readiness of both taxpayers and the tax authorities to face policy changes, and incorporating additional countries not considered in this current study for comparative purposes.

Authors' Contributions

The first author is responsible for data collection, data analysis, and writing. The second author, who is the first author's supervisor, contributed to the research topic and review of this study.

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