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# Exploring Legal Tax Planning Alternatives to Mitigate Tax Evasion Risks in Business Practices

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ARTICLE INFO	ABSTRACT	Check for updates
<p><b>History article;</b>                      Submitted May 28, 2024                      Article revision July 17, 2024                      Accepted September 10, 2024</p> <hr/> <p><b>Author's correspondence;</b>                      Shelda </p> <hr/> <p><b>Keywords:</b>                      Legal Tax Planning, Tax Evasion, Business Practices, Tax Compliance, Tax Strategies</p>	<p><b>Objective:</b> This study is conducted to discuss how businesses can utilize alternative tax planning to replace the risk of tax evasion.</p> <p><b>Methods:</b> Using a qualitative methodology including an extensive literature review and case studies of companies implementing legal tax planning strategies the research finds that tax optimization is a rational business decision that conforms to the public interest. We'll build through academic articles, government regulations, real-world business, etc. To do this, we will make a comparative analysis of the different tax planning methods to find the most effective practices in preventing the risk of tax evasion.</p> <p><b>Results:</b> Through this study, we expect to determine some key legal tax planning strategies including tax deductions, credits, and deferrals adopted by the business aimed at minimizing the tax liabilities while complying with the law. Additionally, it will underline the importance of tax advisors and finances in aiding corporations through the intricacies of tax law, which serves to bolster tax evasion unintentionally.</p> <p><b>Novelty:</b> Offers tangible recommendations for businesses wishing to achieve tax efficiency through a lens of ethics by paying closer attention to the multifaceted nature of the existing interplay between law and business ethics, a fresh perspective provided by this research. The difference with prior literature which focuses on strategy of tax avoidance will create the foundation highlight lawful ways to reduce tax evasion propensity.</p> <p><b>Research Implications:</b> This study has important implications for policymakers, business leaders, and tax professionals. This will give a better insight on the necessity of legal tax planning in facilitating tax compliance while mitigating tax evasion risk. Findings from the research may also impact on the formulation of tax policies that seek to promote transparency and ethical tax conduct in business.</p>	

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## 1. Introduction

A challenge of tax system practices in Indonesia which has an adverse effect on the effectiveness of tax collection systems and on the sustainability of national development. According to the economic framework of Indonesia, tax revenue is one element to support the national budget (APBN), which supports education, health, and infrastructure. Nonetheless, tax evasion is still a problem, especially in the company sector, despite many attempts sex up tax compliance. According to several news sources, many companies participate in practices such as double bookkeeping and falsification of records to reduce income tax (Alsalmi et al., 2023; Brennan et al., 2019; Yu et al., 2018). And this is not just the case in Indonesia, where there is an ongoing trade-off between tax compliance and tax optimization faced by multinationals and domestics around the world (Haron et al., 2021; Kalra & Afzal, 2023).

International tax and the global agenda Many countries have started adopting a more positive viewpoint on international tax, influenced by the trend towards tax transparency on a global scale (OECD, 2020) such as the Automatic Exchange Information (AEOI) treaty. Academics have highlighted that tax evasion constitutes a crime, yet companies persist in seeking to lower their tax burden, sometimes using dubious means (Cuervo-Cazurra et al., 2021; Norton, 2018; Zheng et al., 2024). These actions also undermine the people's confidence in the tax system that is central for the functioning of democratics rule (Ciziceno & Pizzuto, 2022; Debrun & Jonung, 2019; Gangl et al., 2020).

It's that fundamental pull between governments wanting more tax revenue and the business sector wanting to pay as little tax as possible. As in the case of tax evasion, that is the intentional act of misrepresenting income or



inflating expenses to reduce tax liability (Akhtar et al., 2019; Bussy, 2023). And although businesses will justify all of this as being in the name of better profit margins, such practices are illegal and have serious legal repercussions. Tax planning, the legal process of strategizing to minimize tax obligations through the appropriate use of credits and deductions, however, is far too common a tool in the accountant's toolbox, but one that, ironically, so many still fail to leverage to its fullest extent. Bruno (2019), Cooper & Nguyen (2019), (2020), Wagner et al. (2018), tax planning enables companies to plan their economic activities in such a way that their tax obligations are as low as possible, or in, the context of law, they then fundamentally do not incur any taxes. But many entities still seem confused by the distinction between legally permissible tax avoidance and illegal tax evasion. Indonesia has a complicated tax system which adds additional burden for businesses, including smaller entities with limited expenditure (Halimatussadiyah et al., 2023; Ichsan et al., 2022; Maulidia et al., 2019). Furthermore, the global trend towards taxation disclosure, including the adoption of the AEOI approach, has made it more and more challenging for firms to avoid taxation without being discovered (Edwards et al., 2024; Politou et al., 2019).

As such, it revolves around the theory of tax compliance versus tax evasion. Now in the case of the old models epitomized by the Giovanni et al. (2019), Górecki & Letki (2021) model of tax evasion, they consider that taxpayers evaluate the benefits of tax evasion relative to that of the potential punishment they might incur. Recent literature, however, has broadened this theory by incorporating the social and ethical aspects of tax compliance, in addition to the importance of tax planning (Cooper & Nguyen, 2019, 2020). Moreover, the perceived fairness of the tax system also plays a role, with businesses more likely to comply when they believe the tax system is equitable and transparent (Alexander & Balavac-Orlic, 2022; Wilkinson & Hageman, 2023). According to Chairil (2013), Tax Planning is the theory of legal tax reduction for individuals or entities by fulfilling all financial needs and preparing a proper framework without any contradictions to tax laws. This guide can help companies remain compliant without overpaying taxes. Tax planning is crucial in the case of Indonesia, which can reduce dependence on revenue sourced outside of the economy, such as through foreign loans and also grants that are sometimes considered not sustainable in the long run (Mehtar, 2021; Rahman et al., 2023). As businesses operate in a cross-border economic environment with growing demands for transparency, this theory highlights the necessity for firms to find a balance

between reducing tax obligations and ensuring compliance with local laws.

The need to stem tax evasion in Indonesia is evident, especially in the context of the country's worrisome fiscal landscape. Despite the introduction of the AEOI and other attempts to improve tax compliance, tax evasion is high in many sectors as large corporations, for example, manipulate financial statements to lower their taxable income (Kamal, 2019). Studies conducted in this domain demonstrate that there is a noteworthy deficiency in the successful execution of tax arrangement systems, particularly in the case of Indonesian entities. Khaoula & Moez (2019), Kovermann & Velte (2019) have found that tax planning can help reduce corporate tax burdens, making implementation optimal in light of tax laws. Previous research has shown that because tax avoidance is more complex and costly than tax evasion, businesses tend to evade taxes instead of plan (Alstadsæter et al., 2022; Kovermann & Wendt, 2019). The objective of this study, therefore, is to fill this gap in literature, by investigating legal tax planning options businesses can employ to redress the risks associated with tax evasion. This study also developed practical legal tax avoidance for businesses in Indonesia which different from previous studies that can only focus on the ethics of tax avoidance. Sensibly, this study aims to offer practical implications for policymakers as well as businesses by contrasting the consequences of tax evasion with tax planning. At the same time, this research has also tackled an important gap in previous studies where the results surrounding the effectiveness of tax planning in minimizing tax liabilities were contradicting. Hajawiyah et al. (2021), Saragih & Ali (2023), Setyowati et al. (2022), (2023) have found improvements, whereas Chan et al. (2023), Halimatussadiyah et al. (2023), Hartono et al. (2020), Rokhmawati et al. (2024) discovered no significant changes. This research will increase knowledge about the implementation of tax planning in Indonesia.

This study aimed to examine the tax management practices of current Indonesian organizations, especially organizations operating in the manufacturing industry. This study will investigate by finding the legal vehicles for tax planning that can reduce the risk of tax embezzlement, that is, those strategies for companies to comply with the laws that are binding on it, but which at the same time minimize their responsibilities with the tax authorities. This study attempts to contribute in addressing the ongoing efforts of tax revenue generation in Indonesia and enhancing changes towards a more transparent business environment by providing practical solutions to encourage tax compliance.

## 2. Theoretical framework and development

Before we start exploring options for legal tax planning that can help address tax evasion concerns, it's important to understand the theoretical underpinnings that drive corporate behavior and tax management behavior. Tax planning and tax evasion are closely related to the firm's tax compliance, risk management efforts, and their relationship with government regulations. There are several theories explaining why businesses might choose to engage in lawful tax planning as opposed to unlawful tax evasion. These consist of Agency Theory, Theory of Planned Behavior, and Social Contract Theory.

### 2.1 Theory of the agency

Agency Theory (Jensen and Meckling 1976) asserts the existence of a principal-agent relationship between shareholders (agents) and managers (principals) With respect to taxation, shareholders want to maximize economic profits after tax, whereas managers may pursue aggressive tax planning to minimize the company's tax bill. But things might go astray as managers have flexibility in tax management, leading to unethical behaviour like tax evasion. According to Agency Theory, good governance mechanisms and transparency can help to resolve these conflicts as it aims to align the actions of managers with the interests of shareholders, which comply with the legal frameworks as well.

### 2.2 The Theory of Planned Behaviour

The Theory of Planned Behaviour explains how personal attitude, relative norms, and perceived behavioural control influence individuals' decisions making towards whether to comply with a behaviour (Ajzen, 1991). In a tax planning and tax evasion context, this theory takes the view that the company's decision whether to obey tax laws or to suffer is influenced by the mindset of the decision makers, the social pressures facing them in the business environment, and their perceived ease or difficulty at complying with tax laws. When positive attitudes towards legal tax planning exist and social norms are strong for compliance with laws established, there is less opportunity for tax evasion.

### 2.3 The theory of the social contract

Social Contract Theory originated with philosophers such as Hobbes, Locke, and Rousseau, emphasizing mutual obligations between individuals and the overarching society they are part of. In layman terms, that means, in corporate world, an understanding of the fact that businesses have to pay their fair share of taxes which is society's way of contribution to businesses for stability,

infrastructure and other public goods. Tax evasion creates cracks in this social contract, which is simply a breach of the responsibility that businesses hold towards society. Through legal tax planning, companies uphold their social agreement and do not participate in activity that could be detrimental to the public good.

### 2.4 The growth of tax relief and tax avoidance strategies

Tax planning, when done within the bounds of the law, is a fundamental aspect of a company's overall financial strategy. Tax planning means minimizing the tax burden using legal loopholes, exemptions and incentives provided by the tax system July 9, 2023 Yet, the urge to go rogue becomes ever-so-tempting for corporations who occasionally make their way to quick fixes by engaging in tax evasion, the illegal use of complex tax avoidance that includes reporting income as less and/or inflating the number of deductions (or credits) until it misrepresents reality, or hiding information about taxable income to reduce the taxable base. Tax evasion is considered a serious economic crime in most countries, with serious legal, financial and reputational consequences. International tax regulations, including the OECD's Base Erosion and Profit Shifting (BEPS) initiative, have created a more sophisticated environment to detect and prevent tax evasion. These are global efforts, complemented by national efforts to reform tax systems to reduce the space for tax avoidance and evasion. AA Report There is no denying the increased international cooperation among tax authorities across countries to exchange information to track down tax evaders. Although legal tax planning is recognized as a strategic financial management process, it is critical for businesses to differentiate this from tax avoidance and evasion. Tax avoidance navigates the gray areas of tax law; tax evasion is a plain violation of it. Legal tax planning involves arranging affairs within the relevant legislation to keep maximum net income, while tax evasion is illegal and may attract substantial fines or prison sentences.

## 3. Methods innovations

### 3.1 Research design

This research is descriptive using qualitative methods to analyze the practice of tax planning by PT. "XYZ" and its correlation with tax evasion. Descriptive research aims to describe the phenomenon in their natural environment without then manipulating the variables. Therefore, with this research design it is possible to determine the actual facts and events regarding tax planning activities that occur in the company PT. "XYZ" and what is the current status of planning on tax planning activities in the company PT. "XYZ" and also how planning can be in an attempt to

commit acts against the law, namely tax evasion. The study collects in-depth information from publicly accessible documents/reports that disclose the tax planning activities of the company. Since this is a qualitative study, it does not offer a quantification of the data, but instead analyze the general pattern, relation and core themes of data.

### 3.2 Research sample

The sample in this study is taken from secondary data with the main data source is the financial statements of PT. "XYZ." The analysis of the company's tax planning activities leverages historical financial data and publicly available tax documentation outlining the company's decision-making processes and compliance with tax regulations. This analysis will use PT.034'S financial report for 2023, focusing on the profit and loss statements to better understand the company's tax policy and practices. As Jones (2020) explained, Financial statements are important indicators of a company's financial health and are necessary for evaluating tax strategies and obligations. Also, the research includes legal and policy documents, such as relevant tax regulations, laws, and other legal documents that regulate a company's tax planning practices. The company must adhere to tax laws with their tax planning approach that the central documents serves as a guide line. Desai and Dharmapala (2019) emphasize that awareness of the regulatory context is integral to the assessment of corporate tax behavior, especially with respect to legal compliance and optimization strategies. Additionally, the literature review is based on multiple academic sources, along with the discussions of vital concepts regarding tax planning, tax evasion, and corporate taxation found in books, research articles, and journals. Without the study of taxation, it is impossible to exercise tax planning strategies that can decrease tax expense but still function within legal limits (Gupta & Newberry, 2018; An, Nanda, & Webb, 2018; Haan, Awulachew, Katana, Shabani & Tsukada, 2015). The sample size described above provides a comprehensive observation unit that can incorporate both empirical data and theoretical arguments in the data collection process, ensuring the research is adequate in observing PT."XYZ"'s tax planning activities in the context of legal frameworks as well as corporate practices.

### 3.3 Instrument

The research sample referred to in this study is secondary data, with the main data source being the financial reports of PT. "XYZ." Based on historical financial records and publicly available tax forms, we analyze the

company's tax planning activities and indicate how the company implements its tax strategies. Among these are the financial report for PT. "XYZ" in 2023, specifically the profit and loss statements, as this relates to the company's legal and commercial financial performance and tax-related decisions. Jones (2020) notes that "financial statements are becoming an important tool for the tax practitioner to use in assessing the tax strategies a client utilizes and the tax liabilities they undertake." Other addenda of the research include legal docs and regulations, including applicable tax acts, laws and other regulatory legal texts on company tax planning. This provides a context of the company that reflects its compliance with tax regulatory framework as well as the strategic focus on tax planning. As per Desai and Dharmapala (2019), A critical part of understanding the regulatory environment in which corporations operate is understanding their behavior with regards to tax compliance and optimization strategies. In addition, the literature review utilizes a range of resources that explore important ideas related to tax planning, tax evasion, and corporate taxation from books, research articles, and journals. Examples include the work of Gupta and Newberry (2018), which highlights the merits of such tax planning strategies that are efficient with respect to liabilities and subject to laws. This extensive sample emphasizes an integration of empirical data and theoretical insights so that PT. "XYZ" tax planning can be analyzed in light of legal frameworks and corporate practices.

### 3.4 Data analysis

In qualitative research, data analysis involves interpreting the collected data to identify patterns, themes, and relationships. In this study, the data analysis is conducted in several steps to provide an in-depth understanding of PT. "XYZ" tax planning practices and obtain an overview of the legal compliance.

- 1) Data Collection: This step gathers a set of relevant financial documents such as profit and loss reports, and legal documents and literature related to tax planning and evasion. Such a stage allows for the study to be into written information that has been individually written by someone who had witnessed it, as supported by the fact that participants are likely to have about their participation at an early date, so they are true bases for further study (Silverman, 2016).
- 2) NLU/NER (Data Categorization): The next phase involves organizing the acquired data into suitable categories like tax planning practices, tax evasion cases, legal compliance, etc. Using categories to code

the data allows systematic exploration and assists in identifying specific areas of interest related to the company's tax strategies (Bazeley, 2013).

- 3) Data Analysis: Pattern identification is the next stage where you analyze the data, identify the patterns PT. "XYZ" tax planning strategies lead to potential tax evasion or not?) Identifying patterns helps to highlight trends or issues which may require further investigation and consideration of (Braun & Clarke, 2006).
- 4) Theory Development: Using the literature review and the theoretical frameworks and on this fundamental fine-tuning on the data is an analysis of what is considered PT to develop a theory of the tax planning practices of "XYZ". This helps to develop the theory as it establishes a conceptual understanding of the potential impact of findings and how they fit into broader academic and practical debates surrounding corporate taxation (Creswell, 2013)
- 5) Propose Alternative Strategies: Finally, the research will provide alternative tax planning strategies that are still in accordance with current regulations so that PT. "XYZ" will not be involved in unlawful tax evasion practices. These solutions will be based in legal and regulatory context and they will look to optimize the company's tax position while also maintaining compliance (Hampton, 2017).

## 4. Results

### 4.1 Overview of findings

In this section, we highlight the main results of the study. It was a study analyzing the effects of financial fraud on taxable income and taxes paid by business. The results are revealing evidence of tax fraud, due to suspicious gaps between reality and reported numbers. These differences are especially prominent in the categories of underreported revenues and overstated expenses, which lead to a lower taxable income and subsequently a lower corporate tax liability. Such behaviors are in line with advanced research on tax evasion, where firms use financial engineering, for instance, as a vehicle to corridor tax liabilities (Slemrod, 2019). The inconsistency detected above in PT. "XYZ"'s financial statement is consistent with the literature, Gupta and Newberry (2018) see this as another contributing factor and state that the deed of tax solutions include financial accounts adjusted situations notably aggressive tax planning such as income shifting and high inflated deduction. Additionally, this study demonstrates that such financial strategies are also related to strategic behavior in alignment with tax laws changes,

such as those highlighted by Desai and Dharmapala (2019), who argue such behavior is more frequent in an environment of regulatory uncertainty or opportunities. Overall, this it provides evidence of potential tax evasion and highlights the need for stricter regulatory oversight and transparency in corporate tax reporting.

### 4.2 Descriptive statistics

Results of the descriptive analysis show that manipulated and original financial data, especially revenue, are notably different privacy by injecting noise into the raw data. Average revenue was IDR 85.8 billion, while the original reported average was IDR 85.7 billion and reported average revenue standard deviation was IDR 5.4 billion, indicating stable and substantial earnings. But the falsified financial data had an extremely disturbing decline with revenues of only IDR 30.1 billion and a IDR 4.0 billion standard deviation. In other words, this shows about 63% in revenue underreporting from the actual amount. Such maneuvering goes straight to the math of taxable income, potentially minimizing corporate tax burdens by billions.

This pattern aligns well with cases of tax evasion behavior previously identified by Hanlon and Heitzman (2018), which are characterized by the deflation of income and the inflation of expenses in order to reduce tax burden. The differences observed between original and altered data highlights the need for robust auditing processes to deter and uncover fraudulent financial reporting. Moreover, this analysis reinforces the need for transparency and accountability in corporate tax compliance because, as Desai and Dharmapala (2019) show, financial misreporting has serious consequences for the effectiveness of tax systems. Their results underscore the need for increased regulatory oversight to make sure that companies presenting financial statements do so in a manner consistent with the actual economic position of the firm and applicable tax requirements.

### 4.3 Comparison of the taxable income

This comparison indicates significant differences between manipulated and unmanipulated fiscal profit. The original taxable income against the Income Tax Law is IDR 2,630,766,403, while the manipulated taxable income falls to IDR 532,650,960. Such a drop of \$3.351 trillion represents a 79.8% decrease that underscores the significant effect of financial manipulation on the corporate bottom line. This reduction is in line with conventional strategies for tax evasion, previously established in academic literature, in which taxable income is purposefully understated (Hanlon & Heitzman,

2018). They include income deflation and cost inflation practices, both of which are present in this case. By lowering their effective tax rate through deception of financial reporting, the company can have the best of both worlds: benefit from lower tax payment without having to comply with tax regulations in full. These observations highlight the importance of robust monitoring and auditing mechanisms to identify and correct these activities. A strong regulatory oversight can make the underreporting of the financials less common (Desai and Dharmapala, 2019). These discrepancies are shown in Figure 1, which highlights the contrasting nature of the two financial sets of data.

#### 4.4 Adjustments to the tax system

Through the fiscal reconciliation process, these data adjustments have both negatively and positively impacted the amount of taxable income. Non Deductible Expenses such as Donations and Special Tax Payments were also recognized as positive changes. These are necessary to get financial reporting in accordance with tax legislation, hence raising taxable profits. For example, donations were recorded as IDR 21,807,535 of positive adjustment. On the other side, negative adjustments were directly related to the "missing" interest income included in the falsified financial statements, lowering the taxable base. Meanwhile, the interest income adjustment was IDR (106,779,939) due to the banks' intentional underreporting. There are other bullshits in the tax planning work to not to pay taxes on accounting and thus close this income from the coffers.

This highlights the need for reconciliation to ensure compliance with tax laws and regulations. You would generally expense non-deductible expenditures such as donations to either reduce the taxable base (as in the case of donations made). -Missing to include important income sources like interest income can create considerable confusion regarding taxes. The results are consistent with previous work of Hanlon and Heitzman (2018), which shows that fiscal misreporting strategies are common in corporate tax planning. The identification of these adjustments gives considerable insight into PT. "XYZ's" fiscal behavior and raises the need for stricter regulatory measures to act as a deterrent against these types of manipulation.

#### 4.5 Differences in current and deferred tax liabilities

The analysis also reveals sizeable differences as a result of manipulating financial statements of tax obligations. The company taxable income based on the original financial data shows an amount due for payment of IDR

2,318,491,599. But with the presentation of the manipulated financial statements, this obligation was brought down to IDR 532,650,960. This drastic reduction, representing around 77% of their initial tax responsibility, highlights the relationship between financial misrepresentation and corporate tax bills. The position of essential revenue logs and the inflation of deductible costs suggest that the company has taken advantage of loopholes or have intentionally breached tax rules to minimize its responsibilities towards the revenue. Such practices are consistent with tax evasion schemes noted by Desai and Dharmapala (2019), showing that financial engineering may damage the integrity and equity of the tax system. Differences of this sort need strong regulatory mechanisms to discover intentional misreporting, to protect public revenues, and to create a level playing field in corporate taxation. These outcomes further underscore the significance of clear and precise financial communication as a fundamental aspect of compliance and responsibility in meeting tax duties. Companies have to engage in ethical tax planning while mandatory which fulfills compliance and ethical standards.

#### 4.6 Discussion

In this section, we review the study results and discuss how the manipulation of an entity's financial statements can affect taxable income, tax adjustments, and corporate tax liability. This discussion combines the findings with past literature to achieve a full understanding of the phenomena observed, while addressing possible regulatory and managerial advancements.

The analysis revealed a considerable decrease in taxable income due to financial statement manipulation. They reached such Chinese whisper and manipulated financial figures, where the taxable income was recorded as IDR 532,650,960 79.8% lower than the original taxable income of IDR 2,630,766,403. The decline raises important questions about the implications for the future of corporate sustainability and the public trust, especially given recent trends in financial reporting, as stakeholders demand greater transparency and ethical business practices. The finding is consistent with earlier research by Hanlon and Heitzman (2018), which showed that income deflation and cost inflation are frequently used practices to reduce tax liabilities. Such methods not only obscure the true financial state of a firm but also erode the reliability of financial markets. That stark drop in taxable income highlights the role of financial reporting in corporate tax planning. According to Desai and Darmapala (2019), tax evasion using financial manipulation. References for financial portfolio of PT. "XYZ" include their quarterly reports on stock performance and economic

developments. The findings underscored the critical importance of effective internal controls and independent external audits in verifying the accuracy and reliability of financial statements.

DIDA, including non-deductible expenses, donations, and interest income, the reconciliation process makes positive adjustments positively for the IDR 21,807,535 and negative adjustments by IDR 106,779,939. The adjustments show the two-sided effects of the fiscal reconciliation on taxable income, some items increasing and others decreasing the tax liability. Negative adjustments like donations that display compliance with the tax criteria that mandatorily excludes the non-deductible costs from the profit ledger reflect a positive change. This finding conforms with previous research highlighting the significance of regulatory compliance for corporate tax behaviours (Lanis & Richardson, 2018). But leaving out the interest income is a deliberate effort to minimize taxable income, an approach which is against the ethics of paying taxes. These results support the claim by Slemrod (2019) that fiscal adjustments are a double-edged sword; they offer avenues for compliance, but also for manipulation. But this duality can also play out in different ways depending on industries and countries with varying regulatory landscapes and enforcement structures. In jurisdictions with tight tax enforcement, like Germany, for example, companies will be motivated to focus on compliance, while for developing nations where oversight is still developing, like Indonesia, there may be more incentives to manipulate numbers. Details such as these highlight the need to adapt fiscal measures to each country or industry's own economic and regulatory context. An efficient way to prevent such practices is to have sophisticated tax monitoring systems along with timely audits. The results of this study found the significant differences of corporate tax obligation, namely the original obligation is counted based on a tax payment of IDR 2,318,491,599,8, while an obligation that has been manipulated is only as much as IDR 532,650,960. This cut underscores the financial gains obtained through tax evasion, but also reveals the weaknesses in current tax enforcement systems.

Discrepancies in tax obligations have been documented in the literature, especially amongst developing economies where enforcement may be weak (Joshi, Prichard, & Heady, 2019). But the problem is exacerbated by systemic issues such as inadequate technological integration and a shortage of qualified personnel capable of supporting complex tax regimes. For example, research indicates that developing countries often have difficulty identifying cross-border tax evasion because they do not have adequate access to global financial data and there is little

cooperation between governments in this regard (Crivelli, de Mooij, & Keen, 2016). Developed countries, including the United States, have access to strong tax enforcement infrastructures and sophisticated analytics tools; developing economies, by contrast, often do not have the requisite human and institutional capital to design and implement comprehensive tax policies or enforce them (Ayers, Seidman, & Towery, 2020). It needs investment in tax system modernization and international cooperation to enhance compliance and prevent revenue losses to the tune of billions of dollars. PT. "XYZ" deliver the message, that similar vulnerabilities may exist in Indonesia's corporate tax systems, where mechanisms for oversight may struggle to identify sophisticated financial manipulations. The findings also highlight the need to integrate technology in tax administration. Bø, Slemrod and Thoresen (2022) suggest that the use of artificial intelligence and data analytics can improve the capacity of tax authorities to identify anomalies and enforce compliance. As different market players, such as PT. "XYZ," adopting digital tax systems can translate to increased transparency and accountability in financial reporting. The implications for tax policy and corporate governance of these findings are substantial. First, money manipulation to avoid taxes is widespread. Policymakers should create bright-lines to delineate appropriate tax-planning behavior and punish evasive behavior.

Second, corporate governance practices should embrace transparency and ethical decision-making. For example, Armstrong, Blouin, and Larcker (2015) find that more robust governance structures are correlated with lower tax avoidance. Pt. "XYZ" could also improve the governance structure, including systems such as independent board oversight, audit committee effectiveness, and forensic auditing, which support mitigating the risk of financial misstatement. Last, the study highlights the need to cultivate a culture of compliance and integrity in corporate America. Creating programs for training, and by making employees aware through campaigns, organizations can work towards building ethical practices which will be; less likely to lead to intentional machinations.

This study adds to the increasing evidence of tax planning in the context of corporate financial reporting. Through showing clear links between manipulation, taxable income and taxes owed, the paper does an important bit of empirical lifting to help inform the debate on the relationship between corporate behavior and tax compliance. Practical implications. The findings provide actionable insights for regulators, auditors, and corporate managers. For regulators, the results underscore the importance of shoring up tax enforcement mechanisms

and closing regulatory loopholes. For auditors, this only underscores the importance of diligence in their financial reviews, with the ability to detect discrepancies and maintain accuracy. For corporate directors, the research presents a parable of caution regarding the long-term risks of tax evasion.

Although the study has several vital implications, it also has limitations. Their dependence on secondary data impedes any such exploration of motivations behind such financial manipulations. Further research may also find value in collecting primary data such as interviews with corporate executives to better understand what drives tax evasion. Moreover, the case study examines only one organization, which constrains generalization of the results. The movement would have provided similar insights with an added extension to the scope to include multiple companies across multiple industries.

## 5. Conclusion

This exploration topic is of extreme importance in relation to financial statements manipulation and its impact on profitability and corporation tax payments. This shows a greater need for regulation of the companies as well as regulations targeting these types of manipulation in the market. In addition to this, the adoption of sophisticated technologies by tax administrations can

enhance precision and capability in the scrutiny of financial reporting. Addressing these challenges can create a more compliant environment with reduced tax evasion and increased trust in financial reporting systems, leading to a more equitable and transparent business landscape.

### Author contribution

Shelda Multi Rizkinia was involved in study conceptualization, data collection and analysis. Sri Delasmi Jayanti helped with the literature review, advised on the research methodology, and contributed to writing and editing the paper.

### Declaration of Competing Interest

The authors report no conflict of interest for the publication of this article.

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## Appendix A. Supplementary data

**Table 1:** Data Sample Overview

Data Source	Type	Description
Financial report of PT. "XYZ"	Secondary Data	Profit and loss statement for 2023
Tax regulations and laws	Secondary Data	Relevant legal documents and tax guidelines
Research Articles and Books	Secondary Data	Literature on tax planning and evasion

**Table 2:** Research Instruments Overview

Instrument	Type	Description
Document Analysis	Primary Instrument	Analysis of PT. "XYZ" financial reports and tax documents
Literature Review	Secondary Instrument	Books, journal articles, and legal texts related to tax planning and evasion
Thematic Analysis	Analytical Tool	Identifying themes and patterns in the documents related to tax planning and evasion

**Table 3:** Data Analysis Stages

Stage	Description
Data Collection	Gathering financial reports, legal texts, and literature
Data Categorization	Sorting data into categories related to tax planning and tax evasion
Pattern Identification	Identifying themes and trends within the data
Theory Development	Constructing a theory based on data and literature

**Table 4:** Statistical Overview of Variables

Variable	Mean (IDR)	SD (IDR)	Min (IDR)	Max (IDR)
Revenue (Original)	85,800,465,217	5,432,129,874	75,000,000,000	95,000,000,000
Revenue (Manipulated)	30,119,589,754	4,028,349,764	25,000,000,000	35,000,000,000

**Table 5:** Details of Fiscal Adjustments

Item	Adjustment Type	Amount (IDR)
Donations	Positive	21,807,535
Interest Income	Negative	(106,779,939)

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