

The Role of Corporate Accountability in Reducing State Revenue Losses Due to Tax Avoidance and Tax Evasion

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Abstract

Corporate tax avoidance and evasion significantly undermine state revenue. In Indonesia, although corporations are legally recognized as criminal subjects, enforcement remains weak, as liability is often imposed on individual executives rather than on the corporation itself. This study aims to analyze forms of corporate accountability in cases of tax avoidance and evasion and to assess the effectiveness of its application in reducing state revenue losses. This study employs a juridical-normative approach combined with comparative and empirical analysis. National and international legal sources, academic literature, judicial decisions, and data from the Directorate General of Taxes are examined to assess the effectiveness of corporate liability in reducing the tax gap. Findings reveal that weak enforcement encourages corporations to treat tax non-compliance as a rational cost-benefit decision. In contrast, experiences in the UK and Australia show that robust liability regimes, including Deferred Prosecution Agreements and reputational sanctions, significantly improve corporate tax compliance. The study contributes academically by strengthening the discourse on corporate criminal liability in taxation, and practically by offering policy recommendations to enhance Indonesia's fiscal regime through proportional sanctions, reputational mechanisms, and stronger inter-agency coordination.

Keywords: Corporate accountability; tax avoidance; tax evasion; corporate criminal liability

Introduction

The tax system is one of the main instruments of the state for collecting revenue, functioning to finance development and maintain fiscal stability (Adiyanta, 2020; Aqmarina & Furqon, 2020; Najicha, 2022). However, the practice of tax avoidance and tax evasion carried out by corporations has become a global phenomenon that causes huge losses to state revenues (Nurdiansyah, 2023; Winter & Voza, 2022). According to a 2021 Tax Justice Network report, it is estimated that countries worldwide lose more than USD 427 billion annually due to tax avoidance and evasion practices, of which multinational companies contribute about USD 245 billion. In Indonesia, the Ministry of Finance noted that the country's tax ratio is still in the range of 10-11% of Gross Domestic Product (GDP), far below the OECD average of 33%. This indicates a potential for unexplored tax revenue due to low corporate compliance (Suganda et al., 2024; VALERIAN, 2023).

Given these conditions, the urgency of research on corporate accountability in taxation has become increasingly relevant. Corporations are not only profit-oriented business entities but also have a social responsibility to contribute to the development of the country through tax obligations (Hauptman & Belak, 2015; Shinta Widyastuti et al., 2024). Allowing the practices of tax avoidance and evasion not only reduces the country's fiscal capacity but also undermines the principle of fiscal fairness and causes distortions in the investment climate (Mugarura, 2018; van Brederode, 2019). Therefore, discussing corporate accountability is

important not only from the perspective of tax criminal law but also from the perspectives of economic development and fiscal sustainability.

However, previous research in Indonesia has focused heavily on the dimension of individual accountability in tax cases, especially regarding corporate officials who commit criminal acts (Isa et al., 2025; Pardede, 2020; Profianto, 2025). Meanwhile, discussions on the application of the principle of corporate criminal liability in cases of tax avoidance and evasion remain relatively limited (Dharmasetya & Gunadi, 2023; Sinaga, 2019). Normatively, corporations have been recognized as subjects of criminal law that can be held accountable through administrative sanctions, fines, or additional penalties such as revocation of business licenses. The absence of a comprehensive study on the dimensions of corporate accountability creates a research gap and simultaneously opens space to examine how legal instruments can be strengthened to minimize losses in state revenue.

Based on this background, this study aims to analyze forms of corporate accountability in cases of tax avoidance and evasion, assess the effectiveness of its application in reducing state revenue losses, and provide legal policy recommendations to strengthen the national tax regime. The contribution of this research is not only academic, enriching the corporate criminal law literature, but also practical in supporting fairer, more transparent, and sustainable fiscal policies.

Research Method

This study used a juridical-normative approach combined with comparative and empirical analysis (Huda, 2021; Nurhayati et al., 2021). The main focus was to examine the legal framework related to corporate accountability in taxation. Primary legal materials were the main references, including Indonesian laws and regulations such as Law Number 7 of 2021 concerning the Harmonization of Tax Regulations, provisions in the Criminal Code (KUHP), and relevant international instruments like the OECD/G20 Base Erosion and Profit Shifting (BEPS) framework.

Secondary legal materials included academic literature, journal articles, expert analyses related to corporate criminal liability, and reports from international organizations such as the OECD, IMF, and World Bank. Tertiary materials, such as legal dictionaries and encyclopedias, were used to clarify key concepts.

Data collection involved comparative case study analysis of court decisions in Indonesia and other jurisdictions involving corporate tax violations to identify patterns in legal reasoning and enforcement practices relevant to Indonesia. Empirical data from the Directorate General of Taxes (DGT) and statistics on tax compliance were also integrated to provide a factual basis on potential state revenue losses due to corporate tax avoidance and evasion.

The analysis applied doctrinal methods to assess the coherence and adequacy of existing legal norms, as well as comparative analysis to evaluate Indonesia's regulatory framework against countries with established strict corporate liability regimes. The methodology was designed to be replicable, allowing future researchers to follow the same legal materials, data sources, and analytical steps.

This integrated approach aimed to provide a comprehensive understanding of the relationship between corporate accountability, tax compliance, and state revenue protection, with normative analysis clarifying legal foundations, comparative perspectives highlighting

best international practices, and empirical data underscoring the need for tax law reform in Indonesia.

Results and Discussion

Forms of Corporate Accountability in Tax Cases

The results of the study show that the legal framework in Indonesia has recognized corporations as legal subjects who can be held criminally responsible, including in tax crimes (Apriyandi & Prasetyo, 2022; Hikmawati, 2017; Tarigan et al., 2017). This is reflected in the Law on Harmonization of Tax Regulations which explicitly opens up space for corporate criminalization (Setiadi, 2020). In practice, corporate accountability can be realized through three models: (i) strict liability, in which the corporation is liable regardless of individual fault; (ii) vicarious liability, which links the misconduct of the management to the corporation; and (iii) the corporate culture model, which assesses whether the company's internal structure encourages violations (Gilbert, 2018; Suhariyanto, 2017).

However, important findings from a case study of court rulings in Indonesia show a tendency for law enforcement officials to focus on individual liabilities, such as directors or corporate tax officials, while corporate legal entities are rarely the subject of prime suspects. This pattern weakens the deterrent effect because the burden of responsibility is not fully shifted to corporate entities that enjoy profits from tax evasion practices.

Furthermore, this individual-focused pattern of prosecution poses significant practical problems in tax law enforcement. Often, when only individuals (such as directors) are punished, the deterrent effect on the corporation as the main offending entity becomes minimal. The fines or penalties imposed on individuals may not be proportional to the huge financial gains the corporation makes from tax evasion, while the corporation's own assets are relatively untouched.

As a result, corporations can continue to operate and even repeat similar violations by changing their management or engineering structures to protect their assets ("corporate veil") (Dewi, 2018; Syafrida et al., 2019). In other words, the absence of direct and meaningful criminal accountability to corporations not only weakens the deterrent effect but also has the potential to create injustice where the legal burden is borne only by individuals, while corporate entities that actually enjoy the benefits of infringement remain relatively immune.

It is in this context that the application of the corporate culture model as recognized in legal theory becomes very relevant and needs to be optimized in Indonesian tax law enforcement practices. This model not only looks at individual actions or procedural errors, but evaluates whether the company's internal culture, policies, instructions, or control structures systemically encourage, allow, or fail to prevent tax crimes from occurring. For example, this study found indications that in some large cases, tax evasion occurs not solely due to the actions of individuals but is supported by deliberately complicated reporting systems or top management policies that emphasize aggressive tax savings without regard for compliance.

Therefore, law enforcement officials need to be equipped with the capacity and methodology to prove these elements of corporate culture, such as through internal compliance audits, analysis of company policies, or whistleblower testimony. This approach can not only be the basis for holding corporations directly accountable but also encourages corporations to

build a stronger internal control system (compliance program) and ethical culture in fulfilling tax obligations as part of good corporate governance.

The Impact of Tax Avoidance and Evasion Practices on State Revenue

Data from the Directorate General of Taxes shows that Indonesia's tax gap is still significant. On average, potential tax revenue lost reaches around 30% of the annual revenue target, with the largest contribution coming from the multinational corporate sector. This phenomenon is in line with an OECD report which confirms that the practice of base erosion and profit shifting (BEPS) erodes global tax potential by hundreds of billions of dollars every year.

These losses are not only financial but also have an impact on the legitimacy of the tax system. When the public witnesses that large corporations can evade their tax obligations through transaction engineering or abuse of transfer pricing, public trust in the tax system decreases. This further worsens voluntary tax compliance which is the foundation of the success of the modern tax system.

Not only that, but state losses also due to tax evasion and evasion practices have much deeper and long-term socio-economic implications (Abdillah et al., 2024; Aulana et al., 2025). Tax revenues that should be the main source of financing for national development—such as infrastructure, education, health, and social safety nets—have been forced to be reduced or diverted from priority programs.

Based on this, the burden of development is increasingly borne by individual taxpayers and compliant small-medium corporations, who have a much more limited capacity to avoid taxes. This situation not only widens economic inequality between large multinational corporations that are sophisticated in tax engineering and domestic business actors but also has the potential to trigger social discontent and weaken the social contract between the state and its citizens, where the obligation to pay taxes should be directly proportional to adequate public services.

Furthermore, although global frameworks such as the OECD's Base Erosion and Profit Shifting (BEPS) initiative have provided comprehensive guidance to combat multinational corporate tax avoidance practices, their implementation at the national level, including in Indonesia, faces complex challenges. The Government of Indonesia has taken significant steps, such as ratifying the Multilateral Instrument (MLI) to update tax treaties and adopting stricter anti-abuse provisions in the Law on Harmonization of Tax Regulations (HPP Law).

However, the effectiveness of this policy is highly dependent on the capacity of the tax authority (Directorate General of Taxes/DGT) to conduct a highly technical and cross-jurisdictional transaction audit and requires a quick and accurate exchange of information with tax authorities of other countries. Therefore, the enhancement of the DGT's human resource capabilities, the strengthening of information technology systems (such as e-invoicing and big data analytics), as well as the continued political commitment to budget allocation and legal support, are crucial factors in ensuring that anti-BEPS policies are not only written on paper but are actually able to reduce the tax gap and significantly improve the compliance of multinational corporations.

Conclusion

This research demonstrates that corporate accountability is crucial in reducing state revenue losses from tax avoidance and evasion; however, although Indonesian law recognizes corporate criminal liability, its enforcement remains weak, focusing more on individuals than legal entities, which limits its deterrent effect and sustains a high tax gap. International comparisons reveal that consistent application of corporate criminal liability, supported by tools like Deferred Prosecution Agreements and reputational sanctions, enhances corporate tax compliance. Strengthening both financial and non-financial sanctions, along with better coordination among law enforcement agencies, is essential for effective tax reform in Indonesia. This study contributes to corporate criminal law by highlighting taxation as a key area for accountability and provides practical policy recommendations to reduce the tax gap, promote fiscal justice, and support sustainable national development. Future research could investigate the impact of emerging digital financial technologies on corporate tax compliance and accountability frameworks.

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