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Balancing Compliance and Ethics: The Dynamics of Tax Planning, Avoidance, and Evasion in Indonesia

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ABSTRACT
Research on corporate tax strategies in Indonesia reveals a significant financial impact, with corporate tax avoidance reaching USD 4.78 billion. This study aims to comprehensively analyze the distinctions between tax planning, tax avoidance, and tax evasion, evaluate the implementation of the substance over form principle, and assess the effectiveness of anti-avoidance regulations (GAAR and SAAR). Employing a qualitative approach with a systematic literature review method, this research synthesizes secondary data from academic journals and tax regulations using thematic analysis. The findings indicate that tax planning serves as a legal efficiency strategy aligned with tax compliance theory. Conversely, tax avoidance operates in a legal gray area that violates the spirit of the law, while tax evasion constitutes an illegal act driven by agency conflicts. Furthermore, the substance over form principle is proven to be a crucial instrument for the Directorate General of Taxes (DJP) to assess the economic reality of transactions beyond formal legal structures. However, the implementation of both GAAR and SAAR faces significant challenges regarding legal uncertainty and conflicting interpretations between tax authorities and taxpayers. This study concludes that to enhance voluntary tax compliance, the government must provide detailed technical guidelines and foster transparent, balanced communication, rather than relying solely on repressive enforcement that could trigger aggressive tax countermeasures.

Keywords: Tax Planning, Tax Avoidance, Tax Evasion.
JEL Code: H25, H26, M48

I. Introduction

The tax system represents the largest source of state revenue, intended to support national development and public welfare. However, in practice, tax compliance in Indonesia still faces complex challenges. On the one hand, taxpayers engage in tax planning as a legal strategy to minimize their tax burden. On the other hand, tax avoidance and evasion practices often create ethical and legal dilemmas.(Sastrodiharjo & Mukti, 2024). The distinction between these three concepts is not always clear in practice. Tax planning is considered legitimate as long as it is conducted within the law, while tax avoidance often exploits regulatory loopholes without explicitly violating the rules. Meanwhile, tax evasion is a deliberate violation of the law to avoid taxes. All three reflect a spectrum of taxpayer behavior influenced by ethics, regulations, and perceptions of the fairness of the tax system.

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In Indonesia, this dynamic is becoming increasingly interesting as the tax system continues to undergo reform, while taxpayers' ethical and moral awareness is not yet fully aligned with the spirit of compliance. The phenomenon of tax avoidance by large corporations, coupled with low levels of legal compliance and ethical considerations, poses a challenge. The government faces a balance between law enforcement and fostering public fiscal morality. According to Article 1 paragraph (1) of Law Number 28 of 2007 concerning the third amendment to Law Number 6 of 1983 concerning General Provisions and Tax Procedures, Tax is a contribution to the state imposed on the community which must and must be paid, is mandatory based on applicable laws and does not receive direct compensation and will be used for the interests of the government and the interests of the general public. In a report entitled The State of Tax Justice 2020: Tax Justice in the time of Covid-19, it states that as much as USD 4.78 billion (Rp. 67.6 trillion) due to corporate tax avoidance in Indonesia. Meanwhile, as much as USD 78.83 million or around Rp. 1.1 trillion comes from individual Taxpayers in Indonesia. The Directorate General of Taxes' 2020 and 2021 Performance Reports recorded losses in 4,930 cases at the Tax Court throughout 2020. These losses came from 8,664 decisions, meaning the Directorate General of Taxes' win rate was only 43.10% of total decisions. This was due to several factors, including the Panel of Judges' perceived priority on justice.substantiveand ignore other setting functions.

In tax law studies, tax avoidance is generally divided into three forms: tax avoidance, tax evasion, and tax planning. An appropriate tax strategy can not only reduce the tax burden but also contribute to increasing net profit and corporate competitiveness. In Indonesia, the scope for tax planning is quite extensive given the complex and constantly changing structure of tax regulations. The Income Tax Law (UU PPh) and its derivative regulations provide various loopholes that can be legally exploited by taxpayers (Putri et al., 2025). However, precisely because of this complexity, a thorough understanding is required to ensure that the strategies implemented do not violate the rules. A lack of understanding can lead companies to engage in practices that are considered aggressive or even illegal. A tax policy analysis regarding the effectiveness of implementing the substance over form principle shows that this approach is a crucial instrument for the Directorate General of Taxes (DGT) in reducing the number of tax escapes and tax avoidance in Indonesia.

A tax policy analysis of the effectiveness of the substance over form principle demonstrates that this approach is a crucial tool for the Directorate General of Taxes (DGT) in suppressing tax evasion and avoidance in Indonesia. Through this principle, tax authorities have the legal authority to examine the true economic essence of a transaction, going beyond the legal formalities or written contractual schemes often manipulated in aggressive tax planning practices.(I. Putra, 2025). Although it is very effective in uncovering modus operandi such as hidden dividend distribution or transfer pricinginter-company Affiliation, its implementation in the field still faces major challenges related to legal certainty; differences in interpretation between form (civil contract law) and substance (economic reality) often trigger a high number of disputes in the Tax Court due to the lack of fully harmonized regulatory boundaries. As the global economy develops, many countries have begun to introduce General Anti Avoidance Rules (GAAR) along with phenomenal economic growth to avoid transactions aimed at obtaining tax benefits.(Damayanti, 2025)However, developed countries, such as the US and the UK, take a cautious approach. Meanwhile, developing countries have provisions to impose restrictions on tax types of transactions and arrangements known as Specific Anti-Avoidance Rules (SAAR), which have their own advantages and disadvantages in each country. Furthermore, Specific Anti-Avoidance Rules (SAAR) have limitations that force governments to formulate concrete plans and a robust set of rules. In Indonesia, General Anti-Avoidance Rules (GAAR) cannot be applied if Specific Anti-Avoidance Rules (SAAR) and/or provisions of a Double Taxation Avoidance Agreement (P3B) have been applied to the tax avoidance case.(Kurniawan & Rahayu, 2022)Meanwhile, SAAR tends not to create tax uncertainty given its limited scope of application. Thus, the researchIt is important to examine how a balance between legal compliance and ethical considerations can be achieved in tax practices in Indonesia. This study is expected to contribute to the development of fairer, more transparent, and more integrated tax policies, as well as to strengthen a culture of fiscal ethics amidst the complexity of the national tax system.

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II. Literature Review and Hypothesis Development

2.1 Tax Planning

Tax Planning is the ability of taxpayers to plan financial activities with the aim of obtaining minimal tax expenditure (burden).(Gumay & DP, 2026)Theoretically, tax planning is referred to as effective tax planning, where a taxpayer seeks to achieve tax savings through tax avoidance procedures regulated by Indonesian tax law. At this stage of tax planning, tax regulations are collected and analyzed to enable taxpayers to determine the type of tax savings they wish to pursue. Tax planning directed to maximize company value through legal tax savings, utilizing cost reduction facilities, and applicable tax credits.(Wahyuda et al., 2024)Other research confirms that effective tax planning strategies not only reduce the tax burden, but also increase a company's competitiveness and strengthen its long-term financial position.(Sastrodiharjo & Mukti, 2024). In addition, sound tax planning can reduce the risk of tax disputes because it is carried out in accordance with the applicable legal framework.

2.2 Tax Avoidance

Tax Avoidance is an effort to reduce tax obligations through tax planning by exploiting existing legal rules and loopholes, so that from a formal legal perspective it is not considered a violation.(Susanto, 2022). Furthermore, exploiting legal loopholes in tax planning can lead to a decrease in the effective tax rate paid by companies and spark debate about the fairness of the tax system. This situation shows that tax avoidance practices are often viewed as an attempt to reduce contributions to public welfare, even though they are carried out without violating applicable laws.(ED Putra & Rahayu, 2023). Tax avoidance fundamentally reflects the dilemma between formal compliance and substantive justice. Although not legally considered a violation, this practice often creates negative perceptions because companies are seen as attempting to reduce their contribution to national development. In the long term, this strategy can lead to fiscal instability if implemented extensively by many business entities. Furthermore, tax avoidance has the potential to damage a company's reputation in the eyes of the public, investors, and regulators, as it is considered inconsistent with the principles of corporate social responsibility. Therefore, prudent companies will weigh the reputational risks and business sustainability before deciding to exploit legal loopholes in tax planning.

2.3 Tax Evasion

Tax Evasion is an act of tax evasion carried out illegally, for example by falsifying financial reports or hiding income to reduce the tax payable, so that this act is prohibited by law.(Madaniah & Khalida, 2026). Because it is illegal, tax evasion can result in legal consequences ranging from administrative sanctions to criminal sanctions, as well as losses to state revenue. Forms of tax evasion include negligence or delay in reporting tax returns, incomplete and invalid filing of tax returns, and failure to remit collected taxes. Furthermore, these illegal practices include falsifying tax invoices, manipulating reports through double bookkeeping, and even manipulating fiscal identities, such as misusing a Taxpayer Identification Number (NPWP) or refusing to register as a taxpayer.(Raharjo & Tyas, 2023). Other studies confirm thatTax evasion not only harms state revenue, but also damages the integrity of the tax system and reduces public trust in the government.(Susanto, 2022). In addition, tax evasion practices are often related to weak fiscal oversight and low ethical awareness of taxpayers ((ED Putra & Rahayu, 2023)Therefore, strengthening regulations, increasing transparency, and implementing strict sanctions are important tools for reducing tax evasion in Indonesia.

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2.4 Substance Over Form Theory

The principle of substance over form becomesfoundationkey to distinguishing legitimate transactions from transactions that are only intended to avoid taxes(Kapojos et al., 2022). Tax authorities assess transactions based on their underlying economic substance, not just their formal legal form.(Sulistyo, 2026)In other words, if a transaction is only intended to obtain tax benefits, then the transaction can be categorized as a tax avoidance practice. Application of principlesThis is particularly important in the Indonesian context, given the complexity of tax regulations, which taxpayers often exploit for aggressive tax planning. Through an economic substance approach, the Directorate General of Taxes (DGT) has the authority to assess the essence of transactions, thereby uncovering methods such as transfer pricing, disguised dividend distributions, or the use of artificial contract schemes.(Wibowo, 2026). However, the implementationThis principle still faces significant challenges. Differences in interpretation between legal form and economic substance often give rise to disputes in the Tax Court. This demonstrates the need for clearer legal certainty and harmonization between tax regulations and civil law so that this principle can be consistently applied.(Sitompul, 2022).

2.5 Anti Avoidance Theory (GAAR and SAAR)

This theory emphasizesthe importance of rulesSpecific Anti-Avoidance Rule and General Anti-Avoidance Rule to close legal loopholes exploited by taxpayers(Judijanto, 2025). SAAR is designed to address specific tax avoidance methods, while GAAR serves as a broader legal safeguard to crack down on artificial schemes whose sole purpose is to minimize fiscal liabilities. As a preventive measure, the Indonesian tax authorities have implemented the Specific Anti-Avoidance Rule (SAAR) to intervene in tax avoidance methods on a global scale, particularly those related to thin capitalization, transfer pricing, treaty shopping, and controlled foreign corporations.(Sitompul, 2022)However, to close broader legal loopholes, the implementation of the General Anti-Avoidance Rule (GAAR) is urgently needed to target artificial taxpayer schemes whose sole purpose is to minimize fiscal liabilities. Based on this urgency, this study aims to examine the limitations and legal status of GAAR and SAAR in their role as pillars of preventing tax avoidance in the country. GAAR allows tax authorities to assess the economic substance of a transaction, thereby rejecting schemes that are formally legitimate but substantively aimed only at tax avoidance. The implementation of GAAR in Indonesia still faces challenges, particularly regarding legal certainty and harmonization with civil law provisions and international tax treaties.(Triadi & Apriyanti, 2025). Based on this urgency, this study aims to examine the limitations and legal status of GAAR and SAAR as pillars of tax avoidance prevention in Indonesia. This study is expected to contribute to strengthening a fairer, more transparent, and more integrated tax system.

2.6 Tax Compliance Theory

Individual perceptions regarding whether tax collection procedures are fair or not are a crucial factor.influencecompliance(Rasyida & Badjuri, 2025)Taxpayers tend to comply if they feel the system is transparent and fair.(Putri & Murdiawati, 2025)Compliance indicates a commitment to align all forms of action with the legal corridor, standard regulations, and formal guidelines that have been established by the relevant authorities.(Parhilla et al., 2022). Other research shows that perceptions of fiscal fairness are closely related to levels of voluntary compliance; the higher the perceived sense of fairness, the greater the taxpayer's willingness to fulfill their tax obligations.(ED Putra & Rahayu, 2023). Furthermore, trust in tax authorities also plays a crucial role. When authorities are perceived as credible and transparent, taxpayers are more likely to comply without being pressured by sanctions. Conversely, low public trust in the government can reduce tax compliance and encourage tax avoidance and evasion. Therefore, building a fair, transparent, and integrity-based tax system is key to improving tax compliance in Indonesia.

2.7 Theory of Planned Behavior

Theory of(Bosnjak et al., 2020)This explains that the decision to engage in tax avoidance is influenced by individual attitudes, subjective norms, and perceived control over the behavior. In the Theory of Planned Behavior (TPB), there are three pillars of belief that drive human behavior.,that isbeliefs about the consequences of behavior (behavioral beliefs), beliefs about social expectations (normative beliefs), and beliefs about one's own capabilities (control beliefs)(Saputri & Kamil, 2021)The accumulation of these three factors formulates an individual's intention, which ultimately reflects the manifestation of the taxpayer's real actions in operating a system (behavior). The accumulation of these three factors forms an intention within an individual, which ultimately reflects the manifestation of the taxpayer's real actions in operating a system.(Saputri & Kamil, 2021). Thus, TPB provides a strong theoretical framework for understanding why some taxpayers choose tax avoidance, even though legally such actions do not violate formal rules.

2.8 Slippery Slope Framework Theory

This theoretical model developed by Kirchler analyzes the dynamic interaction between the power of fiscal authorities through their oversight function and the level of taxpayer trust in authorities. When regulations are applied repressively and excessively restrictively, they tend to trigger psychological resistance among taxpayers, which then encourages them to explore new legal loopholes. The main essence of this perspective emphasizes that taxpayer compliance is not absolutely formed through coercive instruments or material penalties. The phenomenon of compliance is rooted in the psychological dimension, namely when people voluntarily realize andtrustthat the system and actions taken by tax institutions have fulfilled the principle of justice(Cendrawinata, 2025). Thus, this perspective emphasizes that tax compliance improvement strategies must balance power and trust. Tax authorities need not only to strengthen oversight instruments but also to build public trust to achieve sustainable compliance.

2.9 Agency Theory

Agency theory highlights the conflict of interest between managers and shareholders. Managers may engage in aggressive tax evasion for short-term gains without considering the long-term reputational risks to the company.(Sinulingga et al., 2026). Based on the argument from(Metwally et al., 2025)The effectiveness of board oversight plays a crucial role as a controlling variable in reducing opportunistic behavior. Strengthening governance through an independent board structure and gender inclusivity is considered an essential strategy to mitigate agency problems. This helps align management's orientation with shareholder interests, ensuring that the company's tax strategy remains aligned with applicable compliance principles. Thus, the implementation of good corporate governance serves not only as an internal control mechanism but also as a crucial instrument in maintaining the company's fiscal integrity.

III. Research Method

3.1 Research Approach

This study employs a qualitative approach using a systematic literature review to explore the construction of tax planning strategies to mitigate tax avoidance and tax evasion in financial institutions in Indonesia. A qualitative approach was chosen because of its ability to provide an in-depth understanding of complex phenomena and explore the social, institutional, and regulatory contexts involved.influenceadoption of the tax policy. A systematic literature approach helps researchers review in a structured manner whilesynthesizedata from a comprehensive range of related research in order to draw comprehensive conclusions.

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3.2 Data Sources and Selection Criteria

This research data uses literature studies by collecting, analyzing, and synthesizing various academic sources related to tax planning and company value, including theories, previous research, and relevant tax regulations.(Sakinah et al., 2025). Literature study uses secondary data obtained from various reliable sources, such as Scientific Journals (national and international), tax regulations in force in Indonesia (Income Tax Law), reports and publications from financial authorities (BEI, OJK, DJP).

3.3 Data Analysis and Technique

The thematic analysis approach is applied to map and classify patterns, central themes, and specific categories from a defined set of literature.(Sitasari, 2022)The analysis process includes: (1) familiarization with the data through in-depth reading; (2) initial coding to identify key concepts; (3) searching for themes based on identified codes; (4) reviewing and refining themes; (5) defining and naming final themes; and (6) producing a report.(Adelliani et al., 2023).

3.4 TheoreticalFramework

Tax strategies are the starting point in this framework, categorized by their level of compliance and legality. Tax planning is positioned as a legal action that utilizes tax incentives to streamline obligations, according to Tax Compliance Theory.(Sinulingga et al., 2026). Conversely, tax avoidance manifests as a strategy that exploits legal ambiguities or loopholes. While these actions are formally legal, in practice, these strategies often ignore the philosophical intent and violate the spirit of the law.(Susanto, 2022). Meanwhile, tax evasion is defined as an illegal act or embezzlement triggered by a conflict of interest between the agent and the principal, as explained in agency theory. These three categories reflect the spectrum of taxpayer behavior in responding to fiscal burdens. To respond to these various strategies, managers may be motivated to engage in these practices for short-term gain, despite the risk of damaging the company's reputation in the long term.(Metwally et al., 2025).

The Substance Over Form principle acts as a test to assess whether a transaction has a real economic purpose or is merely a legal engineering for tax benefits.(Kapojos et al., 2022)This supervision is structurally strengthened through the implementation of the General Anti-Avoidance Rule (GAAR) to address general and creative tax avoidance, and the Specific Anti-Avoidance Rule (SAAR) to close specifically identified loopholes. Based on the Theory of Planned Behavior, taxpayer decisions are influenced by attitudes, subjective norms, and perceptions of control exercised by authorities. If supervision is overly repressive without transparency, in accordance with the Slippery Slope Framework, this can create pressure that actually encourages taxpayers to switch to more aggressive avoidance strategies. In addition, based on the Theory of Planned Behavior (TPB), taxpayer decisions are influenced by attitudes, subjective norms, and perceptions of control carried out by authorities.(Saputri & Kamil, 2021). If supervision is carried out too repressively without transparency, in accordance with the Slippery Slope Framework(Cendrawinata, 2025)This can create pressure that actually encourages taxpayers to resort to more aggressive avoidance strategies. Therefore, a balance between the authority's power and public trust is key to building sustainable tax compliance.

Table 1. Comparative Framework of Tax Planning, Avoidance, and Evasion within the Indonesian Legal Landscape

Conceptual Dimension	Tax Planning	Tax Avoidance	Tax Evasion
Legal Status	Fully Legal and compliant with both the letter and spirit of the law.	Lawful by the literal letter of the law (lawful anomaly),	Strictly Illegal and fraudulent under criminal tax law.

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		but violates the legislative intent (spirit of the law).	
Indonesian Regulatory Boundaries	Underpinned by explicit statutory options and incentives (eg, Article 31A of the Income Tax Law regarding investment facilities).	Exploits regulatory loopholes (gray areas), ambiguities, or gaps between domestic and international laws.	Direct and deliberate violation of statutory provisions (eg, Article 39 of the KUP Law regarding tax fraud).
Economic Substance	The transaction possesses a genuine commercial purpose and economic substance beyond tax savings.	Form-driven transactions specifically structured to minimize liabilities, lacking genuine economic or business reality.	Fabricated transactions, falsified financial reporting, unrecorded revenues, or hidden assets.
Ethical & Governance Alignment	Fully aligns with professional tax ethics, transparency, and Good Corporate Governance (GCG) mechanisms.	Aggressive tax behavior that challenges social justice, ethical boundaries, and corporate civic responsibility.	Deliberate criminal conduct that directly undermines fiscal sustainability and national economic welfare.
Practical Examples in Indonesia	Optimizing legitimate asset depreciation methods or utilizing non-taxable fringe benefits (enjoyment limits).	Constructing artificial shell companies in tax havens purely for transfer pricing manipulation or treaty shopping.	Utilizing fictitious tax invoices, keeping double-bookkeeping, or briberies.

IV. Results and Discussion

4.1. The Difference Between Tax Planning, Tax Avoidance, and Tax Evasion

Tax planning is a legal strategy recommended by the government to optimize tax obligations through tax incentives, which is in line with Tax Compliance Theory because it reflects a fair system.(Savitri & Arlita, 2026)With tax planning, companies can reduce their tax burden without breaking the law, for example by utilizing depreciation allowances, tax holidays, or investment incentives. This demonstrates that tax planning is not a form of tax avoidance, but rather an efficiency strategy that actually supports fiscal compliance. Conversely, tax avoidance falls into a legal gray area because it exploits legal loopholes to reduce taxes, thus contradicting the spirit of fairness. This practice is closely related to the Substance Over Form theory, where authorities assess economic substance over legal form, and the Anti-Avoidance Theory, which encourages the implementation of GAAR and SAAR to close these loopholes. Taxpayers' decisions to engage in tax avoidance are also influenced by their attitudes and perceived control, as explained in the Planned Behavior Theory. On the other hand, tax evasion is an illegal act in the form of tax evasion, such as concealing income or falsifying financial reports, which clearly violates the law and undermines the integrity of the tax system. Based on Agency Theory(Hill, 2024), these criminal acts are often triggered by conflicts of interest when managers pursue short-term personal or corporate gain withoutcare aboutthe risk of legal sanctions and damage to the company's reputation. Overall, the fundamental differences between these three concepts require the government to strengthen regulations, tighten oversight, and build positive perceptions to maintain public trust and increase tax compliance.

On the other hand, tax evasion is an illegal act in the form of tax evasion, such as concealing income, falsifying financial reports, or failing to pay taxes that have been collected. This practice clearly violates the law and undermines the integrity of the tax system. Based on Agency Theory, this criminal act is often triggered by a conflict of interest between managers (agents) and shareholders (principals). Managers may pursue short-term personal or corporate gain without regard for the risk of legal sanctions or damage to the company's reputation.(Hill, 2024)Therefore, the effectiveness of the board of directors' supervision is crucial in reducing such opportunistic behavior.(Metwally et al., 2025). In addition to legal and psychological factors, perceptions of fiscal fairness also play a significant role in shaping tax compliance. Taxpayers are more likely to comply if they perceive the tax system to be fair, transparent, and non-discriminatory.(Parhilla et al., 2022)On the other hand, if the system is considered unfair, the tendency to engage in tax avoidance and tax evasion will increase. Research(ED Putra & Rahayu, 2023)emphasized that perceptions of fairness are closely related to voluntary compliance, so building public trust in tax authorities is key to the success of the fiscal system.

Within Kirchler's Slippery Slope Framework, tax compliance is influenced by the interaction between the power of authorities (authority through supervision and sanctions) and trust in authorities (taxpayers' trust in authorities). Overly repressive regulations can trigger psychological resistance and encourage taxpayers to seek new legal loopholes. Conversely, voluntary compliance grows when the public believes that the tax system is run with fairness and integrity.(Cendrawinata, 2025)Therefore, the balance between the power of authority and public trust is a determining factor in increasing tax compliance. Overall, the fundamental differences between tax planning, tax avoidance, and tax evasion require the government to strengthen regulations, tighten oversight, and build positive perceptions to maintain public trust. Tax planning should be encouraged as a legal strategy that supports compliance, tax avoidance should be minimized through the implementation of GAAR and SAAR, while tax evasion must be eradicated through firm law enforcement. Furthermore, psychological and social factors such as the TPB, the Slippery Slope Framework, and perceptions of fiscal justice must be considered so that tax compliance is not only enforced (due to fear of sanctions) but also voluntary (due to awareness and trust).

4.2. Application of the Substance Over Form Principle in Tax Planning

Based on the Substance Over Form Theory, the application of this principle is crucial for tax authorities to assess transactions based on their real economic purpose, not just the validity of their formal legal form in order to detect tax avoidance schemes.(Ibrahim et al., 2025)emphasizes that this principle is key to assessing the substantial purpose of a transaction, so that the tax authorities are authorizedcategorizerepeat transactions that have no real economic essence as an effort to avoid taxes. However,(Triadi & Apriyanti, 2025)highlights the challenges of legal uncertainty and potential interpretation confusion between tax authorities and taxpayers, which often hinder decisive action against such avoidance practices. These implementation challenges are also closely related to the Slippery Slope Framework Theory.(Tryani & DP, 2026), which warns that overly oppressive controls can trigger negative perceptions and encourage taxpayers to turn to more aggressive avoidance strategies.

Therefore, the principle of substance over form must be implemented in a balanced manner through clear guidelines, improving the quality of human resources within tax authorities, and developing sophisticated and holistic oversight mechanisms. To ensure its success, the government and tax authorities need to strengthen transparent relationships and communication with taxpayers to minimize negative sentiment and increase voluntary tax compliance. Furthermore, the successful implementation of this principle also depends on transparent relationships and communication between the government and taxpayers. By building public trust, tax authorities can minimize negative sentiment and increase voluntary compliance.

4.3. The Effectiveness of Anti-Avoidance Rules (GAAR and SAAR) in ReducingAvoidance Tax

Based on the Anti-Avoidance Theory, legal instruments such as the General Anti-Avoidance Rule (GAAR) are essential to address creative tax avoidance schemes that are not yet specifically regulated by law, by granting tax authorities the authority to cancel transactions whose primary purpose is solely to reduce the tax burden. However,according tostudy(Furqon et al., 2022),highlights the main challenge of GAAR, namely legal uncertainty in proving and determining the "primary purpose" of a transaction, thus requiring clearer and more objective evaluation guidelines. In contrast, the Specific Anti-Avoidance Rule (SAAR) has the advantage of legal certainty because it is more specific and easier for taxpayers to understand, but(Damayanti, 2025)reminding that the effectiveness of SAAR is limited to well-known modes and is less flexible in stemming the complexity of modern tax avoidance. On the other hand, the effectiveness of enforcing these two rules is also closely related to the Theory of Planned Behavior.(Bosnjak et al., 2020), which states that taxpayers' decisions to engage in tax avoidance are influenced by attitudes, subjective norms, and perceived behavioral control. Therefore, the implementation of GAAR and SAAR should not rely solely on legal sanctions but should be supported by a comprehensive educational approach and information dissemination regarding the essence of both regulations. Through this strategy, the government can align taxpayers' perceptions of tax avoidance, build awareness of the consequences of violations, and encourage voluntary tax compliance to maintain the integrity of the fiscal system.

Within the modern landscapeof Indonesian taxation, the boundary between legal tax planning and aggressive tax avoidance is increasingly scrutinized through the lens of the "Substance-over-Form" principle. Historically, Indonesian tax law leaned heavily on legal formalism, where the validity of a transaction was determined solely by its contractual structure and formal documentation. However, in response to complex base erosion and profit shifting (BEPS) schemes, the Indonesian Directorate General of Taxation (DGT) has progressively integrated economic substance as the primary metric for tax assessment. This shift fundamentally alters the legal dynamic, shifting from structural compliance to ethical substance. The formalization of Specific Anti-Avoidance Rules (SAAR) in Indonesia serves as a primary defense against structured tax avoidance. Indonesian tax regulations explicitly restrict abusive transactions through mechanisms such as controlled foreign corporation (CFC) rules, thin capitalization ratios, and stringent transfer pricing documentation requirements. For example, the implementation of transfer pricing guidelines mandates that transactions between related parties must strictly adhere to the Arm's Length Principle (ALP). When corporate taxpayers utilize formal arrangements—such as intra-group service agreements or royalty payments—without demonstrating actual economic benefit, the DGT possesses the statutory authority to ignore the formal contract and re-characterize the transaction based on its underlying economic reality.

Despite the existence of SAAR, the dynamic nature of financial engineering frequently outpaces specific statutory provisions, creating an urgent need for a General Anti-Avoidance Rule (GAAR) within the Indonesian institutional framework. The absence of a comprehensive domestic GAAR has historically limited the ability of tax authorities to challenge novel, uncodified tax avoidance schemes that comply with the letter of the law but violate its overarching legislative intent. The transition toward adopting broader anti-abuse doctrines allows the fiscal authority to examine the subjective business purposes of a transaction. If the primary or sole purpose of an arrangement is identified as securing a tax advantage, the transaction can be nullified for tax purposes, ensuring that economic substance prevails over artificial legal forms. This procedural evolution perfectlyaligns with the Slippery Slope Framework by reshaping the balance between institutional power and voluntary compliance. When tax authorities enforce the substance-over-form principle transparently and consistently, it deters aggressive tax planning and minimizes the expanding "gray area" that corporate taxpayers often exploit. Furthermore, by establishing clear boundaries through both GAAR and SAAR, the institutional environment fosters systemic fairness. Corporate taxpayers are forced to recognize that ethical compliance is not merely an abstract corporate social responsibility, but an absolute structural requirement within Indonesia's evolving fiscal architecture.

4.4. Legal Risks in Tax Planning

Based on Agency Theory, aggressive tax avoidance practices are often triggered by conflicts of interest between managers and shareholders, where managers tend to prioritize short-term tax cuts without...care aboutlong-term risks in the form of a collapse in corporate reputation and loss of public trust(Sinulingga et al., 2026). Beyond these moral sanctions, the threat of extremely high litigation costs is emphasized. Companies caught in disputes or formal audits due to aggressive tax strategies face significant legal costs, so the potential tax efficiency gains often pale in comparison to the total future financial and non-financial losses. On the other hand, the Slippery Slope Framework Theory(Cendrawinata, 2025)He warned that overly strict law enforcement and government control could backfire. When regulations are too oppressive, taxpayers will feel trapped in an unfair system.so thatThis reduces taxpayer trust in fiscal authorities and encourages them to seek new, more radical legal loopholes. Therefore, this study recommends that taxpayers evaluate their tax planning strategies holistically through behavioral, legal, and ethical lenses. Companies are advised to establish cooperative communication with tax authorities to mitigate legal risks while maintaining sustainable fiscal fairness.

Within this framework, companies need to evaluate their tax planning strategies holistically through behavioral, legal, and ethical lenses. From a behavioral perspective, the Theory of Planned Behavior explains that taxpayer decisions are influenced by attitudes, subjective norms, and perceived control. If a company perceives aggressive tax avoidance as profitable, is supported by the business environment, and feels empowered to do so, the intention to avoid tax avoidance will be strengthened. However, if social norms and regulations emphasize the importance of compliance, this intention can be suppressed. From a legal perspective, the application of the Substance Over Form, GAAR, and SAAR principles is an important instrument for closing the loophole for avoidance. From an ethical perspective, companies must consider the impact on reputation and public trust as invaluable long-term assets. Furthermore, aggressive tax avoidance practices can also have systemic impacts on the economy. When many companies engage in tax avoidance, state revenues decline, hampering the government's ability to provide public services. This can lead to public dissatisfaction and worsen perceptions of the tax system. Therefore, aggressive tax strategies are not only an internal corporate problem but also a macroeconomic issue that impacts the country's fiscal stability.

To mitigate these risks, companies are advised to establish cooperative communication with tax authorities. A transparent and open relationship can help companies understand tax authorities' expectations while minimizing the potential for disputes. Furthermore, companies need to integrate good corporate governance principles into their tax strategies. An independent and inclusive board of directors can serve as an internal oversight mechanism to curb opportunistic behavior by managers.(Metwally et al., 2025). Thus, management orientation can be more aligned with shareholder interests and fiscal compliance principles. The government also plays a crucial role in creating a fair and transparent tax ecosystem. Clear regulations, consistent interpretation guidelines, and modern oversight mechanisms will enhance legal certainty for taxpayers. On the other hand, the government must avoid an overly repressive approach, as this can undermine public trust. Instead, an approach that emphasizes education, transparency, and communication will be more effective in fostering voluntary compliance. This aligns with Kirchler's view that tax compliance grows when the public believes the system is run fairly. Conceptually, this research confirms that tax strategies cannot be viewed solely from a legal perspective. Tax planning, tax avoidance, and tax evasion represent a spectrum of behaviors reflecting the interaction between legal, psychological, and ethical factors. Tax planning is a legal strategy that supports compliance, tax avoidance is a gray area that needs to be controlled, while tax evasion is an illegal act that must be eradicated. The Substance Over Form, GAAR, and SAAR principles serve as legal instruments to close the loopholes for avoidance. Agency Theory explains the conflicts of interest that trigger opportunistic behavior, while the Slippery Slope Framework emphasizes the importance of balancing authority and public trust. By integrating all these perspectives, companies can design tax strategies that are not only financially efficient but also legally and ethically sustainable.

V. Conclusion

This study comprehensively examines the differences betweentax planning, tax avoidance, and tax evasion, as well as the effectiveness of the substance over form principle and anti-avoidance rules such as

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GAAR and SAAR in the context of tax avoidance. These three key concepts reflect the spectrum of taxpayer behavior in responding to fiscal burdens, ranging from legal strategies to illegal actions. Tax planning is a legal strategy recommended by the government to optimize tax obligations through the use of fiscal incentives. This strategy aligns with Tax Compliance Theory because it reflects a fair and transparent system. With tax planning, companies can minimize their tax burden without violating the law, for example by utilizing depreciation allowances, tax holidays, or investment incentives. This demonstrates that tax planning is not a form of tax avoidance, but rather an efficiency strategy that supports fiscal compliance.

On the contrary,Tax avoidance falls into a legal gray area because it exploits loopholes to reduce taxes owed. This practice is not formally illegal, but it often violates the spirit of fairness and violates the law. For example, multinational companies engage in transfer pricing by artificially setting transaction prices between group entities to shift profits to countries with low tax rates. In this context, the Substance Over Form Principle becomes relevant because tax authorities assess the economic substance of transactions, not just their legal form.(Ibrahim et al., 2025)emphasizes that this principle is key to assessing the substantial purpose of a transaction, so that the tax authorities are authorized to recategorize transactions that do not have real economic essence as avoidance efforts. However, the application of this principle is not without challenges.(Triadi & Apriyanti, 2025)highlights the existence of legal uncertainty and potential interpretational confusion between tax authorities and taxpayers. Differing perspectives on economic substance often lead to disputes, thus hindering decisive action against avoidance practices. This challenge is further complicated when linked to the Slippery Slope Framework, where(Gumay & DP, 2026)warned that overly restrictive controls could trigger negative perceptions and encourage taxpayers to resort to more aggressive avoidance strategies. Therefore, the implementation of the Substance Over Form principle must be balanced through clear interpretation guidelines, improving the quality of human resources within tax authorities, and developing sophisticated and holistic oversight mechanisms.

On the other hand, tax evasion is an illegal act in the form of tax evasion, such as concealing income, falsifying financial reports, or failing to pay taxes that have been collected. This practice clearly violates the law and undermines the integrity of the tax system. Based on Agency Theory, this criminal act is often triggered by a conflict of interest between managers (agents) and shareholders (principals). Managers may pursue short-term personal or corporate gain without regard for the risk of legal sanctions or damage to the company's reputation.(Sinulingga et al., 2026)Therefore, the effectiveness of board oversight is crucial in reducing such opportunistic behavior. Furthermore, this study also highlights the effectiveness of anti-avoidance rules such as the General Anti-Avoidance Rule (GAAR) and the Specific Anti-Avoidance Rule (SAAR). GAAR serves as a general legal umbrella for combating various forms of creative tax avoidance. This rule is flexible because it can be applied to various schemes that are not specifically regulated. However, its general nature often gives rise to multiple interpretations, thus risking reducing legal certainty. Conversely, SAAR provides legal certainty because it is designed to close specific identified loopholes, such as thin capitalization or transfer pricing. However, SAAR is less flexible because it only applies to regulated loopholes, allowing taxpayers to find new loopholes outside the scope of SAAR.

This research shows that although GAAR and SAAR were designed to combat tax evasion, their implementation is often hampered by legal uncertainty and a lack of clear guidelines. Therefore, to achieve greater effectiveness, more detailed and consistent technical guidelines are needed for the implementation of both regulations. Furthermore, the government needs to strengthen the capacity of fiscal institutions by improving human resource quality, utilizing analytical technology, and transparent communication with taxpayers. From a behavioral perspective, the Theory of Planned Behavior (TPB) explains that taxpayer decisions are influenced by attitudes, subjective norms, and perceived control. If a company perceives tax avoidance as profitable, is supported by the business environment, and feels empowered to do so, the intention to avoid taxes will be stronger. However, if social norms and regulations emphasize the importance of compliance, this intention can be suppressed. This suggests that tax compliance is influenced not only by regulations but also by psychological and social factors.

Overall, this study confirms that tax strategies cannot be viewed solely from a legal perspective. Tax planning, tax avoidance, and tax evasion represent a spectrum of behaviors reflecting the interaction of legal, psychological, and ethical factors. Tax planning is a legal strategy that supports compliance, tax avoidance is a gray area that needs to be controlled, while tax evasion is an illegal act that must be eradicated. The Substance Over Form, GAAR, and SAAR principles serve as legal instruments to close the loopholes for avoidance. Agency Theory explains the conflicts of interest that fuel opportunistic behavior, while the Slippery Slope Framework emphasizes the importance of balancing authority and public trust. By integrating all these perspectives, companies can design tax strategies that are not only financially efficient but also legally and ethically sustainable.

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