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Domestic Tax Planning: Tax Avoidance and Tax Evasion

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Abstract: Domestic tax planning has become a central topic in global tax discussions, particularly in the context of tax avoidance and tax evasion. Tax avoidance refers to legally but aggressively reducing tax obligations, whereas tax evasion involves illegal actions aimed at evading taxes. This study aims to systematically review recent research on domestic tax planning using the Systematic Literature Review (SLR) method. Data were collected from 100 reputable journals published between 2019 and 2024 and analyzed using a thematic approach. The findings indicate that executive characteristics, tax morale, and corporate social responsibility (CSR) play significant roles in tax planning strategies. Moreover, complex tax regulations in developed countries tend to drive more sophisticated tax planning schemes, while in developing countries, a lack of transparency and oversight increases the likelihood of tax evasion. This study emphasizes that tax planning can provide economic benefits for companies but also poses reputational risks. Regulators need to strengthen tax policies to limit tax evasion without hindering legitimate tax planning. Future research is expected to explore the impact of technology on tax strategies and the effectiveness of more transparent and accountable tax policies.

Keywords: Tax planning, tax avoidance, tax evasion.

INTRODUCTION

Tax is one of the main sources of income for the state which is used to finance various development programs and public services (Adhillah et al., 2024). Therefore, every taxpayer, both individuals and business entities, has an obligation to pay taxes in accordance with applicable laws and regulations. However, in practice, there are various strategies carried out by taxpayers to manage their tax obligations, both legal and illegal (Hossain et al., 2024). One of the commonly applied strategies is tax planning.

Tax planning is an effort made by taxpayers to minimize the tax burden that must be paid legally and in accordance with statutory provisions (Mangoting, nd). Tax planning is carried out by utilizing legal loopholes in the taxation system to optimize tax obligations without violating applicable regulations (Ronika et al., 2024). With good tax planning, taxpayers can allocate financial resources more efficiently and increase corporate or individual profits (Panggabean & Ritonga, 2024).

Tax planning that is considered legal and can provide benefits for taxpayers has another strategy that often causes controversy, namely tax avoidance (Bimo et al., 2019). Tax avoidance is an effort to reduce tax obligations by actively exploiting legal loopholes, but still within legal limits (Alfiyah et al., 2022). This practice is often considered immoral because it goes against the spirit of justice in the tax system (Sagita et al., 2024). Tax avoidance does not directly violate the law, but it can reduce state tax revenues and have a negative impact on the economy (Soemarsono et al., 2024).

Tax evasion is an illegal activity carried out to avoid the obligation to pay taxes, which is different from tax avoidance (Lamsah & Indy, 2024). Tax evasion includes various methods, such as false tax reporting, financial data management, and concealment of income that should be taxed (Fadhila & Handayani, 2019). This action is clearly against the law and can be subject to criminal penalties and large fines. Therefore, tax evasion is classified as criminal behavior in the taxation sector (Sinaga & Oktaviani, 2022).

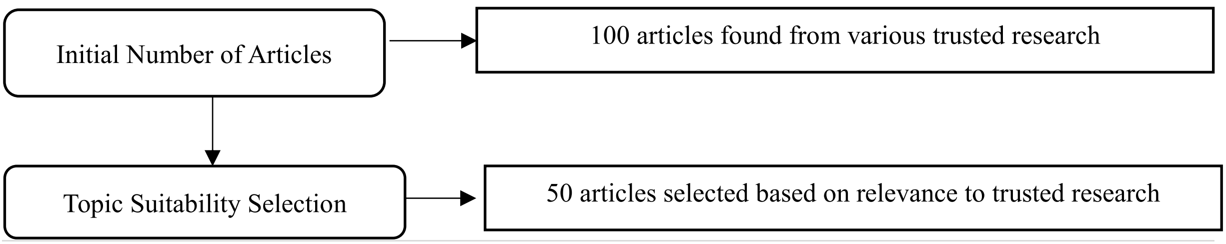
The concepts of tax planning, tax avoidance , and tax evasion in the business world are often debated (Sari & Prihandini, 2019). Many multinational companies use tax planning and tax avoidance strategies to reduce their tax liabilities (Widjaja & Michael, 2024). However, in some situations, these actions can turn into tax evasion if carried out illegally (Mokoagow et al., 2024). Therefore, the government has a crucial responsibility to monitor tax practices carried out by taxpayers so as not to harm the state (Sululing & Posumah, 2023).

Governments in various countries continue to strive to close legal loopholes that allow tax avoidance practices to develop excessively (Wibowo et al., 2022). One way to do this is by implementing anti-avoidance rules and increasing transparency in the tax system (Syalwa et al., 2024). International cooperation in the field of taxation is also being strengthened to prevent tax evasion practices that often involve cross-border transactions (Syafithri et al., 2024).

METHOD

The research method used in this study is the Systematic Literature Review (SLR), which aims to identify, assess, and interpret relevant research on domestic tax planning, especially related to tax avoidance and tax evasion . This approach is carried out through several systematic stages to ensure that the results obtained have a strong basis from various credible academic sources. The first stage in this method is journal screening, where researchers collect 100 journals from reputable databases such as Emerald, ScienceDirect, Wiley, Taylor & Francis, Scopus, and national journals from Sinta 1 and 2. This process is carried out by considering the relevance and credibility of the source to ensure that the studies analyzed have a significant contribution to the topic of domestic tax planning.

After the journals were collected, this study applied inclusion and exclusion criteria to ensure that only articles relevant to the topic of tax avoidance and tax evasion were analyzed. The inclusion criteria applied included journals published between 2019 and 2024, so that only the most recent studies were analyzed in this study. Meanwhile, exclusion criteria were used to eliminate journals from less credible sources, such as ResearchGate, as well as studies that did not specifically discuss domestic tax planning. This screening aims to obtain a collection of literature that is more specific and has high relevance to the focus of the study.



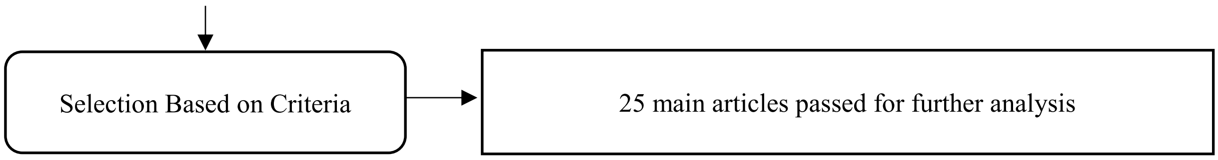


Figure 1. Article Screening Process

The study used a data analysis method based on a thematic approach. In this approach, various main themes that emerged in previous studies were identified and categorized. Some of the themes analyzed include the latest research trends in tax avoidance and tax evasion , the influence of executive characteristics on tax planning strategies, and internal and external factors that influence a company's tax policy. This thematic analysis allows researchers to find recurring patterns in previous studies and draw conclusions about the main factors that contribute to tax planning practices carried out by companies and individuals.

The articles used cover topics such as tax avoidance , tax compliance , tax planning , and tax morale. In the analysis stage, this study also explores various theories underlying the phenomenon of domestic tax planning. Theories such as Agency Theory , Theory of Planned Behavior (TPB), and Deterrence Theory are used as conceptual foundations to understand how business entities and individuals make tax-related decisions. This theory-based approach provides a stronger analytical framework to understand the motivations behind tax avoidance and tax evasion and the factors that influence tax compliance decisions.

RESULTS AND DISCUSSION

Here are some previous studies related to domestic tax planning, especially in the aspects of tax avoidance and tax evasion . The table below presents a summary of the methods and main findings of various studies relevant to this topic.

Table 1 Previous Research Results

No	Author, Year	Method	Research Variables	Research result
1	Sagita et al. (2024)	Systematic Literature Review	Tax Avoidance	CEO characteristics significantly influence tax avoidance, measured by Effective Tax Rate and Book-Tax Difference .
2	Syafithri et al. (2024)	Systematic Literature Review	Tax morale	Identifying factors that influence tax morale in various countries.
3	Syalwa et al. (2024)	Systematic Literature Review	CSR, Ownership Structure, Tax Avoidance	CSR can act as a tool to mitigate reputational risk against tax avoidance, ownership structure affects tax avoidance differently.
4	Adhillah et al. (2024)	Systematic Literature Review	Tax compliance	Identification of trends, dominant theories (TPB, Deterrence Theory), and key variables such as tax knowledge and service quality .
5	Panggabean et al. (2024)	Quantitative - Multiple Linear Regression	Tax Planning, Tax Avoidance, Firm Value	Tax planning has no effect on firm value, tax avoidance has a significant negative effect, and deferred tax burden has a significant effect on firm value .
6	Mango (nd)	Descriptive - Conceptual	Tax Planning, Tax Avoidance	Tax planning aims to reduce the tax burden legally through existing legal loopholes.
7	Sinaga et al. (2022)	Quantitative - Logistic Regression	Profitability , Tax Avoidance	Profitability has a significant effect on tax avoidance , while firm size,

				sales growth , and leverage do not have a significant effect.
8	Asalam (2019)	Quantitative - Panel Regression	Profitability, Firm Size, Tax Avoidance	Profitability has a positive effect on tax avoidance , while firm size does not have a significant effect.
9	Lamsah et al. (2024)	Observation, Socialization, Evaluation	Tax Avoidance, Tax Evasion	MSMEs do not understand the difference between tax avoidance and tax evasion , so further education is needed.
10	Mango (nd)	Descriptive - Conceptual	Tax Planning, Tax Avoidance	Tax planning strategies can be used to legally minimize taxes owed.
11	Lamsah et al. (2024)	Observation, Socialization, Evaluation	Tax Avoidance, Tax Evasion	Increasing understanding of Kabita Cake MSMEs regarding the differences between tax avoidance and tax evasion .
12	Ronika et al. (2024)	Case study, Interview	Tax planning with PP No. 23 of 2018	Companies carry out tax evasion through salary manipulation to take advantage of the 0.5% tax rate.
13	Satyadini et al. (2019)	Fixed-effect model	Tax avoidance risk based on taxpayer characteristics.	The risk of tax avoidance is higher in foreign companies and the financial and mining sectors.
14	Hossain et al. (2024)	Systematic Literature Review	Factors that influence tax avoidance and tax evasion	Individual, corporate, and tax administration factors contribute to tax avoidance and tax evasion .
15	Prihandini et al. (2019)	Regression analysis	CSR and tax aggressiveness	Economic CSR increases tax aggressiveness , while social and environmental CSR decreases it.
16	Wibowo et al. (2022)	Panel data regression analysis	Tax Planning, Tax Avoidance , Profitability, Company Value	Tax avoidance has a positive effect on company value through financial performance.
17	Widjaja et al. (2024)	Financial statement analysis	Corporate Governance, Tax Avoidance	Independent commissioners reduce tax avoidance , while other variables are not significant.
18	Mokoagow et al. (2024)	Structural Equation Modeling (SEM-PLS)	Tax Regulation, Tax Avoidance	Regulatory changes are positively related to tax avoidance , influenced by financial structure and company size.
19	Soemarsono et al. (2024)	Regression analysis	Tax Avoidance , Company Performance	Tax avoidance increases a company's cash flow and profitability.
20	Wibowo et al. (2022)	Panel data regression analysis	Tax Planning, Tax Avoidance , Profitability, Company Value	Tax Planning and Tax Avoidance affect company value through financial performance.
21	Ghofar et al. (2022)	Multiple linear regression analysis and moderation	Political connections, executive characteristics, tax avoidance	Executive characteristics have an effect on tax avoidance, especially for risk taker executives . Political connections have no effect.
22	Handayani et al. (2019)	Regression	Tax Amnesty , Tax Avoidance	Tax amnesty affects tax avoidance and firm value . Tax avoidance is not an intervening variable.
23	Bimo et al. (2019)	Moderation effect analysis	Internal Control, Family Ownership, Tax Avoidance	Effective internal control can reduce tax avoidance . Family ownership moderates the relationship between internal control and tax avoidance.

24	Widyastuti et al. (2020)	Multiple linear regression	Profitability, Leverage, Corporate Governance, Tax Avoidance	Profitability and leverage have a positive effect on tax avoidance . Corporate governance and capital intensity also have a positive effect on tax avoidance .
25	Posumah et al. (2023)	Multiple linear regression	Capital Intensity, Profitability, Leverage, Tax Avoidance	Profitability and leverage do not have a significant effect on tax evasion . Capital intensity and majority share ownership have a negative effect on tax evasion .

Source: Research data

Domestic tax planning often falls on a spectrum between tax avoidance and tax evasion , where the difference between the two concepts lies in their legality. Tax avoidance is a legal strategy to reduce tax burdens, while tax evasion includes illegal actions such as financial statement manipulation (Zakila Cahya Ronika et al., 2024). Contradictions in research results related to tax avoidance and tax evasion arise from various academic and empirical perspectives.

Several studies have shown that tax avoidance has a positive impact on firm value because it can increase profitability by reducing the tax burden. For example, research by Wibowo et al. (2022) revealed that tax avoidance has a positive impact on firm value by increasing cash flow and financial performance. This is in line with the Agency Theory which states that management has an incentive to maximize shareholder profits, including through aggressive tax avoidance (Sari & Prihandini, 2019). However, other studies have shown that tax avoidance can also have a negative impact on firm value. Research by Panggabean and Ritonga (2024) found that tax avoidance has a significant negative impact on firm value because it can increase tax risk and strict supervision from tax authorities.

The role of corporate social responsibility (CSR) on tax avoidance also shows contradictions. Syalwa et al. (2024) showed that CSR can function as a tool to mitigate reputational risk arising from tax avoidance . However, a study by Sari and Prihandini (2019) revealed that economic CSR can actually increase tax aggressiveness because companies use their positive image to disguise tax avoidance strategies. This finding shows that the relationship between CSR and tax avoidance is highly dependent on the type of CSR carried out by the company.

Another factor that influences tax avoidance is CEO characteristics. Research by Sagita et al. (2024) shows that CEO overconfidence, narcissism, and power have a significant effect on tax avoidance . This is in line with the theory of planned behavior which explains that managerial decisions in taxes are influenced by psychological factors and executive confidence in making decisions (Adhillah et al., 2023). However, this finding is contrary to research by Widjaja (2024), which found that independent commissioners can reduce tax avoidance practices , indicating that good corporate governance can be a control mechanism against managerial tax aggressiveness.

In terms of tax compliance, research by Syafithri et al. (2024) emphasizes the importance of tax morale in improving tax compliance. Cultural factors and social norms have a significant influence in determining taxpayer attitudes towards tax compliance . However, research by Hossain et al. (2024) revealed that tax administration factors, such as regulatory imperfections and legal loopholes, also contribute to the rise of tax avoidance and tax evasion . This shows that tax compliance is not only influenced by internal factors of taxpayers, but also by external factors such as tax policies and law enforcement.

The effect of profitability on tax avoidance is also debated in various studies. Research by Asalam (2024) and Sinaga et al. (2024) shows that companies with high profitability tend to be more aggressive in carrying out tax avoidance to reduce the tax burden. However, research by Sululing and Posumah (2023) shows that profitability does not have a significant effect on tax evasion , while capital intensity and majority share ownership actually have a negative effect on tax evasion . This contradiction shows that a company's tax strategy can vary depending on the financial structure and business model applied.

In terms of regulation, research by Mokoagow et al. (2022) shows that changes in tax regulations can increase tax avoidance practices , especially for companies with complex financial structures. This is supported by the Deterrence Theory which states that weak sanctions and regulations can increase companies' incentives to avoid taxes (Syafithri et al., 2024). However, research by Ronika et al. (2024) found that stricter regulations are needed to avoid abuse of tax policies, such as salary manipulation to obtain lower tax rates. This suggests that tax policies should be more responsive to changes in corporate tax planning strategies.

The results of research on domestic tax planning show that tax avoidance can provide benefits in increasing company value and tax efficiency, but also risks increasing supervision and sanctions from tax authorities. Meanwhile, tax evasion remains a threat to a fair and transparent tax system. Theories such as Agency Theory, Theory of Planned Behavior , and Deterrence Theory provide diverse perspectives in understanding taxpayer behavior and the implications of tax policy. A balance is needed between legal tax strategies and tax compliance to create a fairer and more sustainable tax system.

CONCLUSION

Domestic tax planning is a strategy used by taxpayers to optimize tax obligations, either through legal tax avoidance or illegal tax evasion . This study shows that internal factors such as CEO characteristics, profitability, and corporate governance , as well as external factors such as tax regulations and tax morale , play an important role in determining the tax strategy implemented by companies. Tax avoidance can provide economic benefits to companies, but it can also pose reputational risks and stricter scrutiny from tax authorities.

As a strategic step, regulators and the government need to improve the effectiveness of tax policies by adopting digital technology to tighten supervision and increase transparency in tax reporting. Education on tax compliance must be expanded so that taxpayers understand the difference between legitimate tax planning and illegal practices. Further studies can explore the impact of digitalization on tax planning strategies and the effectiveness of more adaptive tax policies in facing global economic changes.

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