

Analysis of Tax Liability Avoidance Based on Islamic Economics in West Java

Atiqah Ummu Afwa^{1*}, Diani Illahi Mubina², Dita Puspita³, Najma Adisha⁴
Sabila Chaerani⁵, Tedi Supriyadi⁶

Indonesian University of Education*^{1, 2, 3, 4, 5, 6}

^{*1}email: atiqahua99@upi.edu

²email: dianimubina@upi.edu

³email: ditapuspita16@upi.edu

⁴email: adhnia08@upi.edu

⁵email: sabilachaerani07@upi.edu

⁶email: tedisupriyadi@upi.edu

Info Articles

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Abstract: This study aims to examine tax avoidance from an Islamic economic perspective by focusing on the principles of justice, openness, and social responsibility. The method used in this study is qualitative with a literature study approach. The findings show that the practice of changing financial reports and exploiting loopholes in taxation are included in the prohibited categories, namely *tadlis* and *gharar*, according to Islam. Injustice in the tax system results in decreased public trust in the government and increases economic inequality.

Keywords: Tax Avoidance; Islamic Economic; Tax Justice; *Tedlis*; Tax Reform.

Abstrak: Penelitian ini bertujuan untuk mengkaji penghindaran pajak dari sudut pandang ekonomi Islam dengan berfokus pada prinsip keadilan, keterbukaan, dan tanggung jawab sosial. Metode yang digunakan dalam penelitian ini adalah kualitatif dengan pendekatan studi literatur. Temuan menunjukkan bahwa praktik pengubahan laporan keuangan dan pemanfaatan celah hukum dalam perpajakan termasuk dalam kategori yang dilarang, yaitu *tadlis* dan *gharar*, menurut Islam. Ketidakadilan dalam sistem perpajakan mengakibatkan menurunnya kepercayaan masyarakat terhadap pemerintah serta memperbesar kesenjangan ekonomi.

Kata Kunci: Penghindaran Pajak; Ekonomi Islam; Keadilan Pajak; *Tadlis*; Reformasi Perpajakan.

A. Introduction

Taxes are one of the main tools in the country's economy that acts as the main source of funds for the government in meeting the common needs of the community, such as infrastructure development, provision of public services, and social welfare programs (Moeljono and Holle 2023). In Indonesia, all levels of society are required to pay taxes in accordance with applicable regulations, both in the form of income tax, value-added tax, land and building tax, and customs and excise (Johan 2019). However, in practice, tax avoidance is still a serious issue that is carried out by many business people, especially large companies. Tax planning tactics aimed at reducing tax liability often take advantage of loopholes in regulations, manipulation of financial statements, or the implementation of schemes Transfer Pricing (Bei 2024). Although this is within the bounds of the law, it creates inequality as companies with more political access and resources can avoid tax liability more easily, while micro businesses and the general public remain fully compliant with their tax obligations (Wahyuni 2021).

This phenomenon is contrary to the principle of justice in Islamic economics. The values of *Al-'Adl* (justice) and *Al-Mizan* (balance) emphasize the importance of fair and unbiased sharing of economic burdens. Islam teaches that contributions to the state, including taxes, must be done in a transparent and fruitful manner and must not harm certain groups of people (Studies 2024). In this context, zakat as a financial obligation in Islam functions as a means of fair distribution of wealth, because it is based on the ownership of net property and pays attention to the economic condition of the person who is obligated to zakat. Some scholars, including Ibn Taymiyah in *Majmū'al-Fatāwā*, were strongly opposed to the practice of tax avoidance, although the taxes imposed were considered unfair, he argued that the obligation to pay taxes should not be ignored, as it would add to the burden on the rest of society. Therefore, in the Islamic view, paying taxes is a form of social responsibility that cannot be avoided. Injustices in the tax system that are not addressed can widen economic disparities and lower public trust in the

country's tax system. Therefore, an alternative approach based on Islamic values is needed to evaluate and improve the tax system to be more fair, transparent, and oriented towards common welfare.

The study focuses on micro business actors and the general public who tend to comply with tax regulations, but do not have access to flexible policies like those of large corporations. Previous research has mostly discussed tax planning strategies by large corporations, while this study raises the issue from the perspective of Islamic economic justice and its impact on tax compliance around micro-enterprises. By examining the basic principles of Islamic economics as well as ethical and moral approaches, this research aims to provide alternative solutions that not only improve tax compliance, but also promote distributive justice, accountability, and social responsibility in the national tax system.

B. Research Methods

This study applies a descriptive qualitative method to gain deeper insights into tax avoidance practices by micro business actors as well as the general public who are not connected to political networks. This method was chosen for its ability to depict complex social realities and understand participants' viewpoints in a more contextual way (Sutikno and Hadisaputra 2019). This research was conducted in an industrial area in Sumedang Regency, West Java. This area was chosen because it has many significant and relevant micro and medium enterprises (MSMEs) that are relevant to the research theme. This study involved 35 participants consisting of micro business actors and the general public who were registered to have a Taxpayer Identification Number (NPWP). Of these, there are 15 women and 20 men, who are between the ages of 25 and 60. Most of the participants came from the lower middle economic class with educational backgrounds ranging from junior high school to undergraduate. This research was carried out by adhering to ethical principles, such as protecting the anonymity and confidentiality of the

identities of the participants. Each participant was given an explanation of the interview objectives and procedures, as well as asking for approval before starting the interview. Data were obtained through semi-structured interview methods and direct interaction. Interviews were chosen as the primary method because they provided an opportunity for researchers to dive deeper into participants' perspectives, experiences, and perceptions. The interview process is carried out with the following steps:

1. Develop interview objectives and a list of questions relevant to the research theme.
2. Identify and select sources according to predetermined criteria.
3. Schedule interview times with the comfort of the interviewee in mind.
4. Determine an interview location that is supportive, calm, and guarantees privacy.
5. Create interview guidelines that are in accordance with the qualitative approach applied.
6. Set up tools such as voice recorders, notebooks, and cameras for documentation.
7. Conduct the licensing process and ensure that research activities comply with ethics.

The tools used in data collection include:

1. Voice recorder or mobile phone to record conversations during interviews
2. Stationery to record important points
3. The camera is for field documentation purposes without displaying the identity of the participant.

To ensure the validity of the data, the researcher triangulated the source and asked the participants for confirmation of the interview results. In this way, the data obtained can be ensured to be relevant, reliable and describe real conditions in the field.

C. Results and Discussion

Based on the results of qualitative research through in-depth interviews with three resource persons representing tax authorities, academics, and business actors, scientific findings were found that the level of tax compliance of the community is greatly influenced by the integrity of the tax system, the view of justice, and the acceptability of the tax system from the perspective of ethics and religious teachings. Distrust of the government, especially due to the large number of corruption cases and low transparency in tax management, is the main factor in tax avoidance. This supports the findings of previous research that stated that trust deficit to tax institutions is negatively correlated with taxpayers' voluntary compliance. Resource person Ms. Adinda Maharani said that tax evasion is carried out through the manipulation of income data and business impersonation, which mostly occurs due to the perception that tax contributions are not proportional to the facilities provided by the state. This strengthens the results of research that highlights the importance of state accountability in improving public tax morale. Interview with KH. Zaenal Alimin showed that Islam views taxes as *fardhu kifayah* which aims to meet the benefits of the ummah. This finding is in line with the concept of *sharia maqashid*, especially in safeguarding public property and welfare. She emphasized that tax avoidance is a violation of the principles of justice and trust, a form of injustice in society.

This is reinforced by research (Maulida, Novita, and Siti Femilivia Aisyah 2024) which states that the establishment of a tax system based on sharia principles is able to increase compliance because of the existence of a spiritual basis and moral responsibility. Meanwhile, instruments such as zakat and waqf can function as a complement or alternative to the conventional tax system in Muslim society.

Based on the experience of Mrs. Anggun Rahayu Melyanti as a business actor, the tax system is considered inefficient and too technical. The existence of billing errors, a

digital system that is not optimal, and differences in the domicile of tax offices have made tax compliance decrease, especially among MSME actors. This finding is consistent with studies that show that the level of tax literacy among MSMEs is still low and is the main cause of tax evasion. In addition, it is important to emphasize system simplification and digital integration as a strategic step to increase taxpayer participation. The results of the interviews show that if the tax system is designed in line with Islamic values such as justice, transparency, and proportional distribution, then people will be more motivated to obey taxes as part of worship. This is also supported by the results of the research (Daryanti, Asriyana, and Hasti 2024) that a person's level of religiosity has a significant effect on tax compliance when accompanied by the perception that taxes are managed fairly and accountably.

The hypothesis in this study states that tax avoidance occurs due to inequality between the conventional tax system and ethical principles and Islamic economic values, especially in the aspects of justice, transparency, and social responsibility. Based on findings in the field, this hypothesis can be declared true, the resource person stated that although patience with tax obligations is quite high, the level of compliance is still low because the existing system does not reflect these values. Bureaucratic inequality, low accountability, and lack of adequate public education exacerbate these conditions. Comparison with previous research also shows the same direction of findings, that a fair and efficient tax system increases public trust and minimizes tax resistance. In addition, the literature that examines the integration of Islamic principles into the tax system shows that people are more obedient to a system that is in accordance with spiritual and social views. The following is the research theme in this article:

a. Tax Injustice and Structural Inequality in the National Tax System

This study highlights structural inequities in Indonesia's tax system, especially for Micro, Small, and Medium Enterprises (MSMEs), which leads to low tax compliance levels. MSMEs face a greater fiscal burden than large companies,

complex bureaucracy, and low government transparency in the management of tax funds. Ms. Adinda Maharani revealed that tax evasion is not solely caused by bad intentions, but also by the complexity of the system and the lack of support from tax authorities, which encourages the practice of manipulating income data and using fake invoices. This is strengthened by the findings of who confirm that the complexity of the system and low understanding of taxation also affect the compliance of the MSME sector.

KH. Zaenal Alimin added that the unfair tax system reflects a failure to implement Islamic principles such as justice (*al-adl*), social responsibility (*issues*), and transparency (*musyarakah*), as well as creating a negative perception of tax obligations. This view is supported by (Sujud Fatih Atsaris and Hidayatulloh Syarif 2023), who emphasize the importance of applying the principles of proportionality and social justice in sharia-based taxation.

Mrs. Anggun Rahayu Melyanti, as a business actor, stated that the tax burden feels heavy, especially when businesses are declining. She highlighted technical problems such as inefficient systems and unresponsive bureaucracy as the cause of reduced motivation to obey. This statement is in line with (Eka Aulianavisha Hamida and Hasnawati 2024) who show that digitalization and simplification of the tax process have a positive impact on MSME compliance.

The study's main hypothesis is that tax avoidance is influenced by distrust of conventional tax systems that do not yet meet the principles of social justice and Islamic values. These findings are empirically proven through various narratives and data that show systemic injustices and weak supervision, which ultimately lead to resistance to tax obligations.

For this reason, systematic reform is needed which includes the application of sharia principles, modernization and simplification of tax administration, support for MSMEs, and increased transparency in tax management. The findings of the

three speakers emphasized that complexity, non-transparency, and injustice are the main obstacles in creating a fair and sustainable tax system, so a new vision based on sharia fiscal justice strengthened by technology and institutional reform is needed.

b. Limited Literacy Understanding and Complexity of the Tax System as a Driver of Tax Avoidance

This study shows that tax evasion in Indonesia is not solely driven by unlawful intentions, but by low tax literacy and the complexity of the tax system, especially among MSMEs. Practices such as the use of fictitious invoices, unreported income, and unregistered businesses often occur due to a lack of technical understanding and complicated procedures, exacerbated by limited access to tax education.

Trust in tax institutions is also an important factor in fiscal compliance. These findings are in line with the studies of (Popescu, Asandului, and Fatulescu 2014) and (Çetin Gerger, Bakar Türegün, and Gerçek 2019) which stated that unfriendly tax systems and low tax literacy are major barriers in developing countries. Even taxpayers with good intentions risk not being compliant if the system and education are not supportive.

From an Islamic economic perspective, taxes are seen as a social responsibility in line with the principle of fardhu kifayah. However, the perception of injustice and the lack of understanding of tax principles in Islam triggered resistance, as revealed by KH. Zaenal Alimin and strengthened by the findings of (Saptono et al. 2024). When the fiscal system is considered unfair and does not bring social benefits, the legitimacy of taxes is weakened.

MSME actors, such as Mrs. Anggun Rahayu Melyanti, consider the technical language in tax reporting difficult to understand without an accounting background, while the lack of digitalization exacerbates the administrative burden. In declining

business conditions, compliance becomes a burden with no real benefits. This reinforces (Richardson 2006) finding that system complexity drives avoidance, especially in the small business sector. Overall, tax compliance is systemic and educational, demanding reforms in terms of literacy, procedural ease, and public trust.

c. Crisis of Trust in the Government as a Reason for Tax Avoidance

This study highlights low public trust in the government is the main cause of tax evasion in Indonesia also amplify the previous research (Marini and Putra 2020) and (Ma et al. n.d.) when the government is considered not transparent and the tax system is considered unfair, people feel reluctant to comply. According to Ms. Adinda Maharani, many taxpayers avoid obligations not because of bad intentions, but because they feel that the benefits are not comparable, as well as a complicated system and lack of incentives—especially for MSME actors. (Wijanarko and Dr. Dra. Erwin Saraswati, 2022) suggested solutions such as digitalization, sharia incentive approaches, and direct mentoring.

In an Islamic perspective, paying taxes is a social responsibility. However, when state justice and accountability are not realized, people's morale to be tax compliant also weakens. Previous research has stated that tax avoidance often occurs in parties with strong political connections, because they are more likely to take advantage of regulatory loopholes (Hardiono, Mahendra, and Paleva 2024). This worsens the public's perception of the fairness of the system.

MSME actors such as Mrs. Anggun also stated that the inefficient system and lack of socialization became a burden, encouraging some business actors to look for loopholes to survive. The long-term solution is to create a system that is fair and in favor of the people, as well as rebuilding public trust through real redistribution (Latief and Zakaria 2020).

d. Incompatibility of Business Ethics with Islamic Economic Principles in the Context of Taxation

The existing tax system often conflicts with Islamic values such as justice (*al-'adl*), responsibility (*mas'uliyah*), and benefit (*maslahah*), which emphasize moral integrity in every economic transaction. Based on an interview with KH. Zaenal Alimin, a religious expert, and Ms. Adinda, a tax expert, as well as Mrs. Anggun, an MSME actor, revealed several key problems. KH. Zaenal Alimin emphasized the importance of Islamic business ethics awareness and views taxes as a social trust, not just an administrative obligation. Ms. Adinda criticized the government's lack of transparency and accountability in the tax system, as well as encouraging the implementation of incentives based on Islamic values such as waqf and productive zakat. Mrs. Anggun highlighted the complexity of the tax system that makes it difficult for MSMEs and advocated simplification, service improvement, education, and digitalization.

These findings are supported by several studies that show the relationship between government transparency, a simple tax system, and tax compliance. The incompatibility between the tax system and Islamic economic principles was identified as one of the causes of tax evasion. The study concludes that the state must play a role as a guardian of social trust, not just a fiscal regulator, and that the integration of sharia values in fiscal policy can improve efficiency and fairness. The proposed solutions include reforming the tax system that is fairer, more transparent, and efficient, as well as improving spiritual and social understanding among taxpayers through an inclusive and participatory approach. The ultimate goal is to improve tax compliance and strengthen social justice in the development of the country.

e. The Potential of Islamic Tax Principles in the Reform of the National Tax System

Indonesia's tax system faces various structural problems such as low compliance, administrative complexities, and a crisis of public trust. In this case, Islamic tax principles that uphold justice, openness, and social responsibility are seen as relevant ethical and practical solutions. According to Ms. Adinda Maharani and (Dharmawan and Hari Adi 2021), the factors of low tax compliance include dissatisfaction with fund management, complicated reporting systems, and tax burdens that are felt to be disproportionate. She emphasized the importance of systemic reform based on the value of justice (Daryanti et al. 2024). KH. Zaenal Alimin explained that taxes in Islam are *fardhu kifayah* which must be managed based on the values of *ta'awun*, *adl*, and *mas'uliyah*, and managed transparently to increase public trust. His view is supported by the findings of (Maulida et al. 2024) which emphasize that taxation is in line with the distribution of wealth and Islamic economic ethics. Mrs. Anggun, an MSME actor, highlighted low tax literacy, system complexity, and lack of access as obstacles to compliance. He stated that MSMEs will be compliant if there are real social benefits. This is in line with the Journal of Economic and Social Development of the Humanities which emphasizes the protection of small communities from the burden of heavy taxes.

The hypothesis of this study states that the principle of taxation in Islamic economics can improve public compliance and trust. The three speakers emphasized the importance of justice, openness, and social responsibility as the foundation for restoring the function of taxes as a tool for welfare redistribution. The approach based on sharia maqashid emphasizes that tax management must be oriented towards benefits (*maslahah*) and avoiding losses (*mafsadah*). By adopting Islamic taxation principles, the national tax system can become more fair, sustainable, and morally and policy-effective.

D. Conclusion

This study found that tax evasion by large companies in Indonesia is not only an

administrative problem, but also reflects an imbalance of power in the national tax system. When individuals take advantage of legal loopholes and political networks to reduce their tax liabilities, this not only leads to reduced state revenue, but also widens economic inequality and undermines the legitimacy of the tax system in the eyes of the public, especially for micro and small business actors. Other significant findings suggest that Islamic economic views are not only a normative alternative, but also a constructive solution to contemporary taxation problems. Principles such as fairness in distribution, social responsibility, and openness, if applied in fiscal policy, can strengthen government legitimacy, build public trust, and encourage tax compliance based on spiritual awareness and muamalah ethics. In this case, paying taxes becomes more than just a legal obligation, but rather an expression of social solidarity based on sharia values.

By highlighting the perspectives of small business actors that are often overlooked in tax discussions, this study makes a unique contribution to the literature, while demonstrating the importance of a multidisciplinary approach that combines fiscal policy with Islamic values. This conclusion confirms that a fair tax system cannot happen only through regulatory changes, but also requires a reconstruction of values, a more equal distribution of power, and a more ethical and fair relationship between the state and its citizens.

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