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NEW ERA OF DIGITIZED TAX ADMINISTRATION SYSTEM, MONITORING & SURVEILLANCE TO INCREASE TAX RATIO: CORETAX

Coretax is an integrated tax administration system developed by the Directorate General of Taxation (“DGT”) whereby all tax administration matters will be handled digitally. In October 2024 the Minister of Finance (“MoF”) issued Regulation No. 81 to align regulations for the implementation of the Coretax Administration System. (See our News Alert No. 3/2024 for details of this regulation.)

Coretax was launched on 1 January 2025, but implementation of the system hasn’t been smooth. Below we discuss some of the problems reported as well as how Coretax might affect taxpayers at a practical level.

What taxpayers should understand about Coretax

Coretax was created to provide greater transparency, efficiency, accountability, and flexibility through digital reporting and analysis with the expectation that this will increase the current tax ratio of around 10% (considered the lowest amongst Indonesia’s peers) to become 16% in line with the campaign theme of President Prabowo. The DGT’s strategy consists of both broadening the base of reporting entities and enhancing compliance of active taxpayers. Coretax is a means to assist the DGT in conducting robust tax audits and monitoring business and personal transactions (direct access to personal and corporate bank accounts).

What this means as a practical matter is that the system can detect taxpayers who report their taxes incorrectly, allowing more effective monitoring by tax officials. A summary of how the Coretax system is expected to operate is summarized below.

- Integrated with data from other institutions. This would allow information to be obtained from banks to view account transactions, electronic transaction data (e-commerce, digital payments), and other companies or institutions which taxpayers are associated with. Tax reporting could then be compared to actual data. Thus, if a taxpayer has a luxurious lifestyle which doesn’t align with their income, this could be flagged. Data on a taxpayer’s overseas assets and income can also be obtained.
- Use intelligent analytics technologies, such as data mining and machine learning. With this, tax officials would be able to identify suspicious patterns in tax reporting or unreported financial activities. The system can also track a taxpayer’s tax behavior.
- Monitor transactions in real time through digital financial reports or payment systems. For example, it will be able to match VAT invoices between sellers and buyers and identify discrepancies.
- Compare taxpayer filings with others in similar industries to ascertain significant differences, allowing tax officials to investigate further.
- Automated risk assessment system. This would assign a risk score to each taxpayer based on previous tax compliance, discrepancies with third party data, and suspicious transactions. Tax officials will be able to follow up with inspections or audits.

If a discrepancy or indication of a violation is discovered:

1. The taxpayer will be notified to correct their reporting.
2. The taxpayer could be subject to further examination or audit.
3. If proven to have reported taxes incorrectly, the taxpayer will be subject to fines, interest, or other legal action.

Coretax is expected to be transparent and fair. By detecting discrepancies in tax reporting, the Coretax system is expected to improve tax office efficiency and encourage greater compliance by taxpayers. However, some concerns have been raised as to the potential impact on taxpayers. How broad will the DGT's authority actually be? What information will it be able to access? Can information be accessed without the taxpayer's knowledge or consent? We will have to wait and see how the system will operate in practice as it evolves over time, taking into account the various problems that have arisen during the early implementation process.

Note also that together with the Coretax implementation, the Ministry of Finance is implementing a new structure due to its larger strategic role and reporting directly to the President. The implementation period is expected to take one year. The restructure includes the addition of an echelon 1 office, **the Agency for Technology, Information, and Financial Intelligence. This new agency is going to be powerful within the MoF.**

Implementation issues

Coretax was launched on 1 January. The DGT reported that as of 9 January, 126,590 taxpayers had successfully obtained electronic certificates to sign tax invoices. Of these, 34,401 taxpayers created 845,514 invoices, of which 236,221 invoices had been validated. However, taxpayers had difficulty accessing the system and complained about things such as creating invoices and filing tax returns. Given the difficulties, the DGT issued a formal apology on 10 January. The DGT noted that no administrative penalties would be imposed from delays caused by the system change.

The problems were reportedly caused by high user volume and technical adjustments to the infrastructure, mainly due to data synchronization. To address these, the DGT is expanding network capacity, increasing bandwidth, and appointing personnel to ease the processing of tax invoices. For example, Coretax can currently receive up to 100 invoices per submission in .xml, but this number will be increased.

Chairman of the National Economic Council, Luhut Pandjaitan, has asked the public to be patient and says the Coretax system should be running optimally within three to four months.

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