

Effectiveness Analysis of Fiscal Financial Statement Preparation in Minimizing Tax Risk

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Abstract

Fiscal policy is a primary instrument for the government in managing the economy through the regulation of state revenue and expenditure. This article aims to analyze the role of basic fiscal policy in economic stabilization, long-term growth, and the challenges of its implementation in identifying effective fiscal policies to control inflation and budget deficits. However, factors such as time lag, political uncertainty, and government debt pose significant challenges. This article also highlights the importance of coordinating fiscal policy with monetary policy to achieve optimal macroeconomic objectives. The largest source of state revenue comes from taxes, including Corporate Income Tax (CIT) levied on a company's annual income. The term 'badan' (entity) encompasses entities such as limited liability companies, state-owned enterprises, regionally-owned enterprises, cooperatives, foundations, and others. This system increases administrative efficiency and reduces the government's burden but requires strict oversight to prevent tax avoidance. Research findings indicate that tax risk management is not only crucial for mitigating potential financial losses and ensuring legal compliance but also for enhancing tax administration efficiency and optimizing tax strategies. . Furthermore, this study reveals various challenges encountered in the implementation of risk management. This research analyzes the effectiveness of preparing fiscal financial statements in minimizing tax risks, focusing on the differences between commercial and fiscal financial statements, particularly regarding the recognition of expenses and the depreciation of fixed assets. Fiscal corrections are necessary to ensure that the reports comply with Law No. 36 of 2008 on Income Tax. Using a qualitative descriptive method, the study finds that although the preparation of fiscal corrections has adhered to regulations, there are still several expense components that need to be corrected. These corrections impact the increase in taxable income and the amount of tax owed. The research results emphasize the importance of accurate fiscal corrections in supporting tax compliance and minimizing tax risks within a self-assessment system

Keywords: *Fiscal Policy, Tax Efficiency, Risking Tax.*

INTRODUCTION

The largest source of state revenue comes from taxes. Taxes play a vital role in the sustainability of the state, as the income generated from taxes is used for expenditures, management, and development of the country. In Indonesia, businesses must settle various types of taxes. Therefore, taxation is clearly not a trivial matter. Incorrect implementation of tax strategies carries significant risks—not only financial losses but also criminal tax sanctions for tax offenses. Businesses continuously face risks. Effective tax risk management not only mitigates potential financial losses but also preserves corporate reputation to maintain a positive standing with both the government and business communities. To reduce risks, companies must optimize operations to avoid disrupting their own workflows.

Risk management is the process of analyzing, identifying, assessing, controlling, and avoiding, minimizing, or eliminating unacceptable risks. This systematic approach is termed 'risk management.' In business operations, managing tax liabilities is critical, especially when considering the impact of internal/external investment strategies to achieve effective tax

structures. Tax risk management refers to controlling tax-induced risks or efforts to reduce tax-related exposures. It represents business actors' attempts to mitigate risks arising from failure to report or pay taxes to the Directorate General of Taxes (DJP). Only businesses with robust internal/external tax risk control systems can effectively manage tax exposures. Companies must maintain consistent, effective external tax reporting—encompassing financial statements, transfer pricing, and public disclosures. Internally, businesses require tax governance plans, taxation systems, and human resource controls to ensure compliance, ultimately providing tax assurance.

Through taxation, the government funds vital public services and development programs. Corporate Income Tax (CIT) constitutes a major revenue source, levied on entities' annual income. CIT contributions are crucial as they significantly boost state revenue, enabling national fund allocation to critical sectors like education, healthcare, infrastructure, and security. Thus, national sustainability and progress depend heavily on an effective tax system. The State Budget (APBN)—the national financial document outlining annual revenue/expenditure—relies primarily on tax income. Taxes from individuals and corporations serve as vital instruments for national development, despite being burdensome for taxpayers. Corporate Income Tax (CIT), as a primary tax, is imposed on companies' net profits from domestic and overseas economic activities. Companies must prepare financial statements complying with Financial Accounting Standards (SAK) and Tax Regulations. Differences in accounting principles (e.g., revenue/expense recognition) are resolved through reconciliations to determine taxable income for calculating tax liabilities.

Taxes are a crucial instrument in supporting national development and serve as the primary source of state revenue, both directly and indirectly from society. One of the most significant types of taxes is Income Tax (PPH), which is imposed on taxpayers based on the income earned within a fiscal year. To fulfill tax obligations, every taxpayer—especially corporate taxpayers—is required to maintain proper bookkeeping in accordance with Article 28 of Law Number 28 of 2007 and based on Financial Accounting Standards (SAK).

In an increasingly complex tax regulatory environment, tax risk has become a critical challenge for companies. This risk includes potential financial losses due to tax sanctions, fiscal corrections, reputational damage, and even legal claims. The preparation of accurate Fiscal Financial Statements (LKF) serves as the first line of defense in tax risk management. LKF acts as a bridge between commercial accounting and tax provisions, converting accounting profits into taxable income. This analysis evaluates the effectiveness of LKF preparation in mitigating tax risk, focusing on compliance, accuracy, and its strategic function.

Data from the Directorate General of Taxes (2012) reveals that around 4,000 foreign investment companies (PMA) reported zero tax, with some even experiencing losses for seven consecutive years. In the United States, approximately one-quarter of companies pay taxes at a rate of less than 20% of their income. Several factors influence tax avoidance, including profitability, leverage, company size, and corporate governance mechanisms such as independent commissioners and audit committees. Companies with high profitability tend to engage in careful tax planning to reduce their tax burden. However, in practice, discrepancies often arise between commercial financial statements prepared under accounting principles and tax calculations governed by tax regulations. These differences necessitate the implementation of fiscal corrections, which are adjustments made to accounting profits to comply with tax rules in determining taxable income. Fiscal corrections consist of positive fiscal corrections, which

increase taxable income, and negative fiscal corrections, which reduce it. This process is commonly referred to as fiscal reconciliation.

In line with technological advancements and efforts to improve tax compliance, governments around the world, including Indonesia, have begun implementing fiscalization systems. This system involves the electronic reporting of business transactions in real-time to tax authorities through the use of software or fiscal cash register machines. The purpose of fiscalization is to increase transparency, reduce informal economic activities, and strengthen Compliance Risk Management (CRM) systems and digital SPT pre-filing. Although its implementation requires substantial investment and system adaptation, fiscalization has proven effective in supporting tax supervision and collection efficiency. In this context, commercial financial statements play a vital role as the basis for tax reporting. One of the key reports is the income statement, which reflects a company's financial performance through the comparison of revenues and expenses. The differences in revenue and expense recognition between accounting standards and tax regulations make fiscal corrections essential for accurate calculation of income tax payable

RESEARCH METHODS

Data analysis according to Habu & Henderson (2023) is a process and compiling it systematically data obtained from interviews, field notes and documentation, by means of organizing data into categories, breaking it down into units, doing synthesis, organizing into patterns, choosing what is important and will be studied and make conclusions so that they are easily understood by yourself and others. Meanwhile, according to McDermott (2023) data analysis is the process of organizing and sorting data into patterns, categories and basic units of description so that it can be found. themes and a working hypothesis can be formulated as suggested by the data This study employs a descriptive quantitative approach, involving systematic and objective stages of data collection, processing, analysis, and presentation. The selection of data sources is aligned with the research problem to ensure relevance, accuracy, and accountability. This quantitative approach is also derived from official reports, scientific journals, literature studies (Library Research), and reliable databases. Data sources are gathered from libraries through various literature, both general and specific, related to taxation in Indonesia. After collecting data from all sources. The research findings indicate that tax risk management is not only crucial for mitigating potential financial losses and ensuring legal compliance, but also for enhancing tax administration efficiency and optimizing tax strategies. Furthermore, this study reveals various challenges encountered in the implementation of risk management and provides recommendations for future research, encompassing both empirical studies and international comparisons to deepen the understanding of best practices in tax risk management.

RESULTS AND DISCUSSION

Preventive and Corrective Mechanisms in the Preparation of Fiscal Financial Reports preventive and corrective mechanisms used in the preparation of fiscal financial reports function

as an early warning system to detect potential tax compliance deviations through automatic cost validation and structured fiscal reconciliation. Automatic Cost Validation is an integrated system with the SAP TAX module that scans real-time transactions for inconsistencies with Article 9 of the Income Tax Law (e.g., entertainment expenses exceeding 0.5% of gross income, administrative sanctions without supporting documentation). This was also implemented at PT Telkom, which showed a 68% reduction in errors after implementation in 2023. Structured Fiscal Reconciliation is a systematic process carried out to align differences between commercial financial statements and tax calculations as regulated by tax laws. The objective is to ensure that the accounting profit reported by the company aligns with taxable income for tax purposes.

The structured fiscal reconciliation process involves several steps, including:

Identification of Differences: Identifying discrepancies between revenue and expense recognition in commercial financial reports and tax regulations. This includes differences in depreciation methods, revenue recognition, and deductible expenses. **Fiscal Adjustments:** Making necessary adjustments to align accounting profit with tax regulations. These can be positive adjustments (increasing taxable income) or negative adjustments (reducing taxable income). **Documentation:** Recording all adjustments and the rationale behind them to ensure transparency and compliance with tax regulations. **reporting** preparing a clear and structured fiscal reconciliation report, which is used to calculate the tax payable and for reporting to tax authorities.

Structured fiscal reconciliation is crucial to ensure companies meet their tax obligations accurately and avoid legal issues or penalties due to non-compliance. It also helps companies plan taxes more effectively and manage tax risks.

Fiscal Reconciliation for Operational Effectiveness Fiscal reconciliation for operational effectiveness aims to align a company's financial statements with tax regulations to enhance the efficiency and effectiveness of tax management and overall business operations. This process focuses not only on tax compliance but also on how reconciliation supports operational goals. by conducting regular fiscal reconciliation, companies can identify and resolve potential tax issues before they escalate. This helps reduce the risk of penalties that could disrupt business operations, improves internal managerial decision-making in financial management, builds investor trust, and ensures employee welfare. Achieving all these elements strengthens the company's foundation, allowing it to compete more effectively and contribute to national employment.

Fiscal Reconciliation for Reputational Effectiveness Fiscal reconciliation for reputational effectiveness, in accordance with tax regulations, ensures that a company not only fulfills its tax obligations but also builds and maintains a good reputation among stakeholders, including the government, investors, and the public. **Compliance with Regulations:** Proper fiscal reconciliation ensures full compliance with applicable tax laws. This is essential to avoid penalties, fines, or legal issues that could damage the company's reputation.

Transparency and Accountability A structured fiscal reconciliation process increases transparency in financial and tax reporting. By providing clear and accurate information about tax obligations, companies demonstrate accountability to stakeholders, which builds trust and improves reputation.

Tax Risk Management: Routine fiscal reconciliation allows companies to identify and manage potential tax risks proactively. Effective risk management reflects a responsible approach to taxation, enhancing the company's public image.

Support for Corporate Social Responsibility (CSR): Companies that comply with tax obligations and conduct proper fiscal reconciliation are better positioned to contribute to CSR programs. This reflects the company's commitment to community development and enhances its reputation as a responsible corporate entity. **Good Relations with Tax Authorities:** Effective fiscal reconciliation helps foster positive relationships with tax authorities. Such relationships reduce the likelihood of intense audits and create a more supportive regulatory environment. **Improved Image Among Investors:** Investors are more likely to be attracted to companies with a strong reputation for tax compliance. Demonstrating an effective fiscal reconciliation system can attract more investment and enhance market value. **Avoidance of Negative Stigma:** Companies involved in tax avoidance or tax issues often face negative public perception. Transparent and accurate fiscal reconciliation helps companies avoid these issues and safeguard their reputation.

Fiscal Reconciliation for Managing Transactional Risk fiscal reconciliation for transactional effectiveness aims to manage and mitigate risks related to business transactions that can impact tax liabilities. This process is essential not only for ensuring compliance with tax regulations but also for optimizing the outcomes of business transactions. **Identification and Analysis of Tax Risks:** Fiscal reconciliation enables companies to identify potential tax risks from specific transactions such as revenue recognition, deductible expenses, and transfer pricing. By analyzing these risks, companies can take preemptive steps to mitigate them. **Compliance with Tax Regulations:** The reconciliation process ensures all transactions comply with prevailing tax laws, helping avoid penalties, fines, or legal issues that could harm the business. **Accurate Transaction Data Management:** Fiscal reconciliation improves the management of transactional data. With accurate and structured records, companies can more easily conduct necessary analyses and tax reporting while reducing the risk of reporting errors. **Tax Structure Optimization:** Fiscal reconciliation allows companies to evaluate the tax implications of various transactions and design more efficient tax structures. This helps reduce tax burdens and improve profitability. **Improved Accuracy of Financial Reports:** Effective reconciliation ensures that financial reports reflect accurate tax positions, which is crucial for sound managerial decision-making and effective financial planning. **audit Risk Mitigation:** Routine fiscal reconciliation helps reduce the risk of audits by tax authorities. Ensuring transactions are properly reported in line with regulations minimizes the likelihood of issues during audits. **Support for Strategic Planning:** Understanding tax risks associated with transactions enables management to make better strategic decisions regarding investments, acquisitions, and resource management, contributing to long-term business objectives. **Strengthened Stakeholder Relations:** Companies that proactively manage tax risks through fiscal reconciliation can build strong reputations among stakeholders, including investors, customers, and tax authorities—enhancing trust and support from various parties. **Improved Operational Efficiency:** Identifying and managing tax risks associated with transactions leads to more efficient tax management processes, reducing both costs and time spent resolving tax issues. In summary, fiscal reconciliation for managing transactional, operational, and reputational risks is a proactive approach to managing tax obligations and enhancing overall business performance.

CONCLUSION

The analysis of the effectiveness of fiscal financial statements in minimizing tax risks indicates that the preparation of accurate fiscal financial statements in accordance with tax regulations is a fundamental foundation in the management of a company's tax risks. Fiscal

financial statements serve as a crucial link between commercial financial statements and tax calculations, helping to identify and adjust discrepancies that may affect the amount of taxable income. With proper fiscal reconciliation, companies can ensure that reported income complies with tax provisions, ultimately reducing the potential for reporting errors that could lead to administrative or criminal penalties.

In addition to reducing the risk of penalties, effective fiscal financial statements also contribute to increased efficiency in the tax reporting process, thereby minimizing the administrative burden on the company. Maintaining compliance through well-prepared fiscal reports strengthens tax governance and supports transparency, which can enhance trust between the company and tax authorities, as well as other stakeholders such as investors and business partners.

Furthermore, the effectiveness of fiscal financial statements plays a significant role in optimal tax planning strategies. With a clear understanding of tax obligations and potential tax risks, companies can make more informed and measured business decisions regarding investments, asset management, and operational structures that support tax efficiency. This not only has the potential to reduce tax liabilities but also prevents unexpected transactional risks arising from discrepancies in financial reporting.

However, the effectiveness of fiscal financial statements heavily relies on the quality of the data used, the competence of human resources, and the internal control systems that support the fiscal reporting process. Therefore, companies need to continuously develop technical capabilities and information systems that facilitate the effective and accurate preparation of fiscal reports in line with the dynamic developments in tax regulations.

Overall, well-prepared fiscal financial statements are an essential strategic instrument in minimizing tax risks. With optimal fiscal management, companies can not only fulfill their tax obligations in a timely and accurate manner but also enhance public trust, maintain their reputation, and support long-term business sustainability. Consequently, strengthening the process of preparing fiscal financial statements should be a top priority in the management of a risk.

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