Automatic Exchange of Information: Education Era

Ahmad Rudi Yulianto
Economics Faculty of UNISSULA
Kaligawe Street Km.04, Semarang, Central Java, Indonesia
ahmad.rudi@unissula.ac.id

Abstract - Automatic exchange of information regulation (AEOI) is intended to reform the tax system. This regulation is for all taxpayers, including MSMEs, which are still unfamiliar about taxation. The purpose of this study was to see the application of AEOI on the CV. SR (MSMEs). The theoretical implications of this study are expected to contribute to new understandings to explain theories that already exist in society. This study used the interpretive paradigm with a phenomenological approach. The results of this study found that AEOI regulations on CV. SR as an educational and learning tool to improve knowledge of taxation and corporate administration honestly so that voluntary tax compliance will improve better.

Keywords: AEOI, Phenomenology, Education

1. Introduction

Automatic Exchange of Information (AEOI) was motivated by the 2008 global financial crisis which disrupted the economy in various countries, including developed countries such as United States (US) and Europe. These countries are trying to improve the country's finances with fiscal policy. As a result, the fiscal policy taken is to mobilize domestic resources including taxes. Domestic resources (taxes) often decline for several reasons. They are the practice of tax avoidance and tax evasion by taxpayers.

AEOI (Automatic Exchange of Information) Global Standard is a standard for automatic exchange of financial information in tax matters. The Organization for Economic Co-operation and Development (OECD) and the G-20 developed this standard with input from other jurisdictions/countries and consultations with financial institutions. This standard is similar to the foreign account tax compliance act (FATCA) or the United States foreign tax compliance law. AEOI will enable the discovery of tax evasion that was not previously detected. This will allow the government to restore lost tax revenues to non-compliant taxpayers and further strengthen international efforts to increase transparency, cooperation and accountability among financial institutions and tax administration.

Taxpayers who avoid tax evasion and exploit weaknesses will be limited access to financial information for tax purposes, both in one or another country. The country is called a tax haven or known as an offshore financial center. According to the Boston Consultant Group, in 2013 there were $ 8.5 trillion of world assets from Western European and Asia Pacific countries. These assets are hidden in tax reserves such as Switzerland, Hong Kong, Singapore, Panama, Luxembourg, and United Arab Emirates. (liputan6.com)

Taxation problems also later became the spotlight of the world's largest economy in G20. At G20 meeting, at London or London Summit in 2009, G20 leaders declared to take action on uncooperative countries on transparency, especially, in the field of taxation, including to the countries that are in the tax
asylum category. The meeting also declared that the era of banking secrecy had ended for tax purposes. Then, Indonesian government signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC) in 2011. It was a multilateral international agreement for cooperation assistance administration of taxation, including tax information exchange.

Indonesia also contributed to the formation of this AEOI by joining as a member of the Global Forum on Transparency and Exchange of Information for Tax Purpose (Global Forum) in September 2009 and will begin implementation in 2018. Therefore, Indonesian government issued Law Number 9 of 2017 concerning stipulation of Government Regulation in Lieu of Law Number 1 of 2017 concerning Access to Financial Information for Tax Interest is in order to authorize the Directorate General of Taxes (DGT) to obtain access to financial information automatically. The law must oblige Financial Institutions to collect and report financial information to the tax authorities and authorize the tax authorities to exchange information with other countries.

In addition, the Government through the Minister of Finance has issued a regulation on exchange of information in the field of taxation through the Minister of Finance Regulation No. PMK-60 / PMK.03 / 2014 concerning Information Exchange Procedures as amended lastly with PMK-125 / PMK / 010/2015 (PMK-125/2015) which is based on Article 32A of income tax (PPh) Law related to the authority of the government to form international agreements in the field of taxation. Meanwhile, the relevant authority, the Financial Services Authority, as the financial services regulator, will also issue regulations relating to the provision of foreign customer information related to taxation with partner countries. (POJK No. 25 / POJK.03 / 2015)

With the phenomenon of information exchange in various countries and it also affects Indonesia. The impact of the implementation of AEOI Indonesia is not only for corporate taxpayers, foreign taxpayers but also for personal taxpayers and MSMEs. So, this research attempts to examine the response of AEOI to CV. SR (MSMEs) as an effort of transparency and tax administration reform.

2. Literature Review
2.1 Automatic Exchange of Information

To overcome the global financial crisis, it is necessary to apply cooperation in terms of exchanging financial information. This is important, especially to prevent tax evasion which is a source of state finance. AEOI or automatic information exchange for tax purposes surfaced in 2010 when the United States government issued a Foreign Account Tax Compliance Act (FATCA) policy.

In 2013, the Minister of Finance and the Governor of the Central Bank of G20 countries and OECD (Organization for Economic Cooperation and Development) held a meeting to provide support for the exchange of information automatically as a global information exchange standard for taxation purposes. Furthermore, in 2014 the countries of the G20 and OECD members agreed to formulate policies such as FATCA through the Common Reporting Standard (CRS) to become the basis for global information exchange. OECD publication of April 14, 2016 provides information that as many as 94 of these jurisdictions, 55 of them committed to start exchanging information automatically in 2017 including jurisdictions that have been known as tax heaven such as Bermuda, British Virgin Island, Cayman Island, Luxembourg and others, and including also Singapore,
The OECD (2012) report on automatic exchange of tax information includes seven steps:

1. Payer or paying agent collects information from the taxpayer and/or generates information itself.
2. Payer or paying agent reports information to the tax authorities.
3. The authorities consolidate information by country of residence.
4. Information is encrypted and bundles are sent to residence country tax authorities.
5. Information is received and decrypted.
6. Country feeds relevant automatic information into an automatic or manual matching process.
7. Country Residence analyzes the results and takes compliance action as appropriate.

For example, an Indonesian resident taxpayer has $100,000 deposit in a Swiss bank and earns an interest of 5% per year. So, the income from foreigners is $5,000 every year. Automatic exchange of tax information means that Swiss banks report income to the Swiss tax authorities regularly (for example every year), then inform the tax authorities. Indonesian tax authorities can then match this information with information that has been received directly from taxpayers. Thus the right data will exist after the verification process.

The information exchanged usually includes the name of the taxpayer, tax identification number, temporary and permanent address of the taxpayer, type and amount of income received for the period, and details of the payer at the source of the country. This can also include other items such as information about financial assets, immovable property, tax returns, etc. (OECD 2012, p.7).

AEOI is an important system because it encourages taxpayers to pay taxes accurately, as expressed by Urinov (2015):

"The automatic exchange of information system is crucial for countries that tax their residents on worldwide income or assets. The system has a deterrence effect. It encourages resident taxpayers to accurately report their foreign-source income to their countries of residence. The automatic exchange of tax information also ensures equal treatment of domestic and foreign source incomes of the resident taxpayers, thereby eliminating the opportunity for tax-distorted reallocation of economic and financial resources offshore."

### 2.2 AEOI in Indonesia

The Government through the Minister of Finance has issued regulations for the procedure of information exchange in the field of taxation through the Regulation of the Minister of Finance No. PMK-60 / PMK.03 / 2014 concerning Information Exchange Procedures as amended the latest by PMK-125 / PMK / 010/2015 (PMK-125/2015) which is based on Article 32A of the Income Tax Law related to the authority of the government to form international agreements in the field of taxation. This is to ensure that FATCA and CRS can be implemented effectively. Meanwhile, the relevant authority, the Financial Services Authority, as
the financial services regulator, will also issue regulations relating to the provision of foreign customer information related to taxation with partner countries.

In 2017, the government issued Government Regulation Number 1 of 2017 concerning Access to Financial Information for Tax Purposes. The legal basis is issued in order to support the implementation of the Automatic Exchange of Information (AEoI) system that is valid in 2018. The Government Regulation of AEoI is released to fulfill the commitment of participation of Indonesia in implementing the exchange of financial information automatically. Establishment of the Government Regulation at the law level regarding access to financial information for tax purposes before 30 June 2017.

In detail, there are 10 Articles in Government Regulation Number 1 of 2017. Article 1 states that access to financial information for tax purposes, includes access to receive and obtain financial information in the framework of implementing the provisions of the legislation in the field of taxation and implementation of international agreements in the field taxation. While Article 2 paragraph (1) states that the Director General of Taxes is authorized to have access to financial information for tax purposes as referred to in Article 1 of financial service institutions that carry out activities in the banking sector, capital markets, insurance, other financial services institutions and / or entities others that are categorized as financial institutions.

The Government also issued a Minister of Finance Regulation Number 19 / PMK.03 / 2018 concerning Technical Guidelines Regarding Access to Financial Information for Tax Interests requiring Financial Institutions that will report their financial information must contain at least: the identity of the financial account holder, financial account number, identity of the Financial Institution, balance or value of financial accounts, and income related to financial accounts. Meanwhile, related to the balance or value of financial accounts that must be reported to individuals, at least Rp1,000,000,000 (one billion rupiahs) is regulated or with the foreign currency of equal value. Conversely, there is no balance limit. Before reporting Financial Institutions, it is a must register first with Tax Service Officer (KPP) where the taxpayer is registered no later than March 31, 2018. Meanwhile, the reporting deadline is no later than April 30, 2018.

In addition, Director General of Taxes Regulation Number PER-04 / PJ / 2018 concerning Procedures for Registering for Financial Institutions and Submission of Financial Information Reports, the Directorate General of Taxes asks that financial institutions convey customer identities including account numbers, the identity of reporting financial institutions, account balances, and income related to financial accounts. The financial statements are submitted in electronic document format and carried out through encryption security with special applications provided by the Directorate General of Taxation.

3. Research Methodology
3.1. Research Type and Paradigm

This type of research is qualitative which describes the actual picture of the phenomena that occurred in the AEoI era. This method is used to obtain a comprehensive picture of the implementation of a policy. The paradigm used is an interpretive paradigm that aims to obtain a subjective understanding that is created "as pure" from a process that takes place (Burrell and Morgan, 1979). The approach method used to express the meaning is phenomenology, which is
to describe and explain how actors understand the application of AEoI on the CV. SR.

According to Creswell (1994), Phenomenology actually means ‘to let the realized symptoms appear’ (to show themselves). Something will appear as it is (things as they appear). The main problem that will be explored and understood by this method is the meaning or understanding, structure and nature of the life experience of a person or group for a symptom experienced. From the Phenomenology philosophy, then phenomenological methods developed. The purpose of this method is to capture the meaning of human life experience about a phenomenon. The phenomenology method wants to know more about the structure of consciousness in human experience.

3.2. Objects, Participants, and Data Collection Methods

The object of this study is CV. SR. CV. SR is MSMEs that is engaged in the manufacture of tapioca flour. The object analyzed is the understanding of the parties related to the application of AEoI in the CV. SR. The chosen participants are individuals who are directly involved, understand, and can provide information about AEoI as shown in table 1.

<table>
<thead>
<tr>
<th>No.</th>
<th>Participants</th>
<th>Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>M</td>
<td>Director of CV.SR</td>
</tr>
<tr>
<td>2</td>
<td>SAR</td>
<td>Financial Consultant of CV.SR</td>
</tr>
<tr>
<td>3</td>
<td>R</td>
<td>Academia</td>
</tr>
</tbody>
</table>

The data collection method used was interviews, in-depth storytelling and interpretative with the participants because the researchers interpreted and gave meaning to the data and information provided by the participants. Implementation time is more or less done for 1 month, 2 April - 30 April 2018. The Interviews are conducted in an unstructured and informal manner in various situations.

4. Discussion

4.1. Regulation as an Educational Tool

The publication of Regulation of Republic of Indonesia No. 9 of 2018 which regulates access to information for the benefit of taxation is essentially a demand in the international world. Even Switzerland, which has been a place for tax evaders, has already committed to implementing AEOI. Some benefits from AEOI are as expressed by Panayi (2015):

“Automatic exchange is thought to be very beneficial as a tool to counter offshore noncompliance. It can provide timely information on non-compliance where tax has been evaded either on an investment return or the underlying capital sum. It can help detect cases of noncompliance even where tax administrations had no previous indications. Other benefits include its deterrent effects, increasing voluntary compliance and encouraging taxpayers to report all relevant tax information regarding foreign-source income to their residence states. Overall, automatic exchange of tax information ensures the
equal treatment of the domestic and foreign-source incomes of resident taxpayers, thereby eliminating the opportunity for the tax-distorted reallocation of economic and financial resources. To an extent, it also helps to educate taxpayers in their reporting obligations, increase tax revenues and lead to fairness – ensuring that all taxpayers pay their fair share of tax in the right place at the right time.”

AEOI is very useful for fighting non-compliance, giving a deterrent effect on sanctions, increasing non-compliance and eliminating the opportunity to relocate "incomes" abroad. This is an educational step for taxpayers, as disclosed by the respondent below:

"The existence of AEOI affects the unavailable place to hide the treasure. It is good to educate the public, especially as I am a MSMEs actor who lay on tax. Taxpayers become obedient, transparent and honest. However, with the existence of clear tax rules and socialization, taxpayers may become volunteers in paying taxes. Some taxpayers (MSMEs) may be afraid of tax compliance. This rules may become a means of educating. Sometimes, we threaten first so that we can act correctly. But not all the criteria of the person (taxpayer) like that. "(MD, April 4, 2018)

"I support information disclosure because there are other effects. For example, I should be more careful in financial planning. Time by time I make a Standard Operating Procedure (SOP) of company (CV.SR), I know more about the bookkeeping of companies that have been "inconsequential" to make it. That's all as because to be safe from taxes (director general of taxation). In order to not to be checked (tax audit). It will be complicated if it is checked, it's been a long time, and feel too tired. "(MD. April 4, 2018)

"AEOI is not only for large companies, MSMEs are also on AEOI radar. Openness rules are very good for taxation database reform. Taxpayers are “forced” to learn honestly in reporting assets. For large and established companies it may be easy to record and report assets, in contrast to MSME companies. MSME is hardly creating good wealth and bookkeeping reports, and also never record the sales. This rules (AEOI) and other rules certainly make taxpayers learn to administer finances (taxes) well. "(SAR, 5 April 2018)

"AEOI indirectly forces taxpayers to echo "self-assessment system" where the honesty of taxpayers is the main role. This is expected that one day the taxpayer will obey voluntarily, without seeing sanctions. And, the government only becomes a supervisor who is educating, and assisting. "(R, 2 April 2018)
4.2. Regulation Not to be Feared

The government has successfully released Law. No. 9 of 2017, Government Regulation in Lieu of Law. No. 1 of 2017, the Minister of Finance PMK-125 / PMK / 010/2015 regulations, and regulations which are related to supporting the exchange of financial information. Various phenomena appear after the rules are published, the pros and cons are certain to occur, public opinion reigns freely. The public (taxpayers) often feel anxious and worried. Moreover, the taxpayer is more comfortable with the more closed financial information. The following are the interviews that describe anxiety:

"I was worried about this rule (AEoI). Money's company, bank loans, can be seen by tax director general. I once thought I wanted a "cash'' transaction, but it was impossible ... I was also worried about banking data security, but the company tax consultant (CV. SR) said there was no need to worry because it had already taken part in the tax amnesty. "(MD, April 4, 2018)

"The Government Regulation in Lieu of Law disclosure of information is a continuation of the amnesty tax ago. Don't be afraid, especially if you have participated in tax amnesty. The available data will be compared to the validity and reliability by the tax director general. But no less important is also the implementation of the rules, the tax director general's HR is also improved so that public opinion for the government is better, and trusted. "(R, 2 April 2018)

"In Tax Reporting (SPT), for taxpayers who do not take part in tax amnesty, if there is an error in SPT, it can still be revised through the SPT correction mechanism. And as long as customer funds have been reported on the SPT, there will be no problem. If taxpayers participate in tax amnesty and are honest, there is no need to worry about the existence of information disclosure rules. It is true that all of the taxpayer's property data has been linked to the tax director general's database. Savings, homes, land, cars, deposits, stocks, everything is linked, what needs to be hidden more? Be honest in taxes. "(SAR, April 5, 2018)

The government with all efforts to reform taxation must also continually convince the public to increase tax credibility. Not only with "clear" rules, but also the credibility and performance of HR taxation must be increased so that the existence of AEOI does not become "heaven" of Corruption, collusion and nepotism (KKN).

5. Conclusion and Limitation

Based on the results of the discussion, it can be concluded that CV.SR considers the AEOI rules as an educational tool to create voluntary tax compliance. CV. SR is aware that in an era of financial information disclosure for the benefit of tax authorities, it is difficult for taxpayers to hide property / avoid...
taxes. With the existence of AEOI, it was used as a momentum for CV.SR to reform the financial administration of the company.

Related to the research conducted, there is a limitation of this research. This research have been done in a fairly short time so that researchers cannot be directly involved in the development process of AEOI. This causes researchers to only use interview research methods in this study.

References


OECD (2012), fn. 25

Peraturan Pemerintah No.1 Tahun 2017 tentang Akses Informasi Keuangan untuk Kepentingan Perpajakan.

Undang-undang. No. 9 tahun 2017 tentang penetapan peraturan pemerintah pengganti undang undang nomor 1 tahun 2017 tentang akses informasi keuangan untuk kepentingan perpajakan menjadi undang-undang


Peraturan Dirjen Pajak Nomor PER-04/ PJ/2018 tentang Tata Cara Pendaftaran bagi Lembaga Keuangan dan Penyampaian Laporan Informasi Keuangan


Peraturan Menteri Keuangan Nomor PMK-60/PMK.03/2014 tentang Tata Cara Pertukaran Informasi

PMK-125/PMK/010/2015 Tentang perubahan PMK-60/PMK.03/2014 tentang Tata Cara Pertukaran Informasi

POJK. no 25 03 2015-penyampaian informasi nasabah asing terkait perpajakan kepada negara mitra atau yuridiski mitra

