

Topic: Human Right Issues of Artificial Intelligence (AI) Gaps and Challenges, and Affected Future Legal Development in Various Countries

## Artificial Intelligence Challenges in Developing a Taxation System for Community Welfare

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**Abstract.** Artificial Intelligence (AI) more and more people are interested in this field as a result of the development and use of technology in Indonesia. As a result of the rapid development of technology, artificial intelligence (AI) has begun to influence various aspects of our lives, including the world of business and the realm of public administration. In Indonesia, the development of artificial intelligence has become one of the main focuses in the country's efforts to increase innovation and competitiveness. Artificial intelligence (AI) has brought major changes to every aspect of human life, one of which is the taxation system. One of the largest sources of state treasury revenue is taxes used for development to ensure people's welfare. As a result, the country's welfare development is very dependent on the income sector. However, it is difficult for the country to collect taxes because so many taxpayers do not pay them, which is a problem in itself. Tax is a mandatory contribution to the state owed according to regulations by a taxpayer (WP), who can be directly appointed who does not receive achievements which are used to finance general expenses for running the government. The Indonesian government institution tasked with collecting tax revenues as well as carrying out tax administration functions is the Directorate General of Taxes. Indonesia is a country of law and all forms of action taken by the government and society must be based on applicable legal norms. The government must rethink and modernize the tax system to overcome this problem, especially by utilizing increasingly sophisticated digital technology. Artificial intelligence is a digital technology that can be used as a solution to existing problems.

**Keywords:** Artificial; Intelligence; Law; Tax.

### 1. Introduction

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Artificial intelligence (AI) has now opened up a new phenomenon in the fields of corporate business and government. Artificial intelligence is generally associated with a tool to find problems and solve complex problems in various problems in the business, corporate and government sectors.

Artificial intelligence (AI) is more than just a tool; machine learning and generative AI are accelerating transformation across the tax and accounting industry and opening up new possibilities. From automating routine processes to leveraging data-driven insights to supporting client communications, AI empowers professionals to become indispensable strategic advisors in delivering better outcomes for their clients.

The AI-powered tax and accounting office of the future is already a reality. Future-focused companies rely on solutions that leverage machine learning and predictive intelligence to increase efficiency, automate routine tasks, and reduce errors, freeing up more time to focus on higher-value services. Recent AI advances, such as generative AI, have the potential to completely change the nature of tax and accounting professionals' work by automating complex data processing, providing deeper insights, and simplifying output creation.

Research shows that companies that are willing to embrace technological innovation, including AI, show higher growth and profitability, and companies are starting to take notice of this. Wolters Kluwer's 2024 Accounting Industry Report shows that more than 50% of accounting firms are considering increasing their use of artificial intelligence tools to keep pace with industry changes and technological advances.

Based on the description above, it appears that taxes are a very important source of state revenue for government administration and the implementation of national development. So it is important to carry out bureaucratic reform in the field of taxation. Companies that are willing to embrace technological innovation, including AI, show higher growth and profitability. Therefore, the author took the title Implementation of Tax Law for Justice-Based Community Welfare.

## **2. Research Methods**

The problems raised in this research use normative legal research methods, which use secondary data types where the data obtained indirectly includes primary legal materials. The data obtained was then collected through documentary study data collection techniques or literature studies by collecting data based on legal materials that have been used in this research, and analyzed using qualitative data analysis techniques. As the aim of research is one

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of them as a prediction, in order to provide a description of the findings later obtained in this research and also to find conclusions that are correct and can be scientifically justified.

### **3. Results and Discussion**

#### **3.1. The Concept of Artificial Intelligence as a Legal Subject in the Context of Taxation in Indonesia**

The concept of AI as a legal subject is a complex and interesting issue in the realm of taxation in Indonesia. As AI technology continues to develop rapidly, fundamental questions arise regarding the legal status of non-human entities such as AI. In the context of taxation in Indonesia, this question becomes increasingly relevant because there are no explicit provisions regarding the recognition of AI as a subject of taxation in the current laws and regulations.

In the taxation system in force in Indonesia, legal subjects are traditionally known as entities that have the ability to have legal rights and obligations. However, in the context of AI, the concept becomes blurred because AI is essentially a man-made entity that does not have physical existence or free will like humans. Therefore, it is necessary to carry out an in-depth review to understand whether AI can be considered a legal subject that has rights and obligations under Indonesian positive law.

Several views on the concept of AI as a tax subject highlight the importance of recognizing the legal rights and responsibilities of AI in various contexts, from the protection of personal data to the validity of contracts concluded by AI. However, on the other hand, there are also skeptical views that doubt AI's ability to have the same legal responsibilities as humans, considering the limitations in aspects of morality, ethics and freedom of thought that AI has.

The definition of tax according to Law Number 28 of 2007 concerning General Provisions and Tax Procedures (UU KUP) is a mandatory contribution to the state by an individual or entity that is coercive based on the law. Tax is a state obligation which is clearly regulated in the 1945 Constitution. In article 23 (A) it is emphasized that "taxes and other levies of a coercive nature for state needs are regulated by law". Which is in accordance with article 27 paragraph (1). Article 23 (A) of the 1945 Constitution (Amendment IV), is the legal basis for tax levies in Indonesia, which reads: "Taxes and other coercive levies for state needs shall be regulated by law."

Regarding taxes, there are many definitions given by scholars regarding what taxes actually are. Definition of tax according to P.J.A. Andriani, which reads as follows: Tax is a contribution to the

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state (which can be enforced) which is owed by those who are obliged to pay it according to regulations with no return, which can be directly appointed, and whose purpose is to finance general expenses related to it is the state's duty to organize government."

As a comparison, several definitions of tax from several scholars are presented, namely:

1. Francis's definition reads: "Taxes are assistance, either directly or indirectly, imposed by public power from the population or from goods to cover government spending."
2. The definition of the Deutsche Reichs Abgaben Ordnung (RAO-1919) reads: "Tax is an incidental or periodic debt of money (with no contra performance), which is levied by a generally conditional body (the state), to obtain income, where there is a tatbestand (taxation target), which due to the law has created a tax debt."
3. Definition of Edwin R.A. Seligman reads: "Tax is a compulsory contribution from the person, to the government to defray the expenses incurred in the common interest of all, without reference to special benefits conferred". Many have heard objections to the phrase "without reference" because after all tax money is used for the production of goods and services, so the benefits provided to the community are not easy to demonstrate, especially to individuals.

Many experts in the field of taxation provide different meanings or definitions regarding tax. However, these various definitions have the same core or goal. The definition that the author can propose is as follows: Taxes are people's contributions to the State Treasury (transfer of wealth from the private sector to the government sector) based on law (can be enforced) without receiving reciprocal services (tegen prestatie) which can be directly appointed and used. to finance general expenses (publiecke uitgaven).

Thus, taxes can only be collected by the government (both central and regional), and the new government can collect taxes based on applicable laws.

The role of taxes has not answered or fulfilled people's needs, for example road infrastructure, many roads are damaged and have not been repaired, bridge facilities are still lacking, as a result the distribution of goods is hampered and causes high economic costs.

In terms of education, it is felt that it is lacking, education funds have been allocated at 20% of the APBN, and there is an increase every year. However, it is felt that the impact has not been very significant, because school operational assistance (BOS) provides a very small amount to underprivileged communities, as well as the allowances given to assistant teachers or non-permanent teachers, are very minimal. Operational assistance funds are aimed more at physical

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rehabilitation of facilities, but it must be acknowledged that professional teacher allowances are sufficient to increase the level of welfare of teachers. Large taxes will definitely increase the quality of education in Indonesia.

In terms of health services, health services with the public health insurance program (Jamkesmas) with a total fund of 7.3 trillion, really help poor people, who have felt uncertain about going to hospital for treatment. However, these services are still lacking, private health institutions can usually provide good services. This means that more funds are still needed to provide health comfort for the community in order to improve public health In terms of defense and security, Indonesian military equipment is outdated, it's no wonder we often see it in the news about land, sea and air accidents. This is because the tools used are no longer suitable for use.

The characteristics of taxes are based on: the cost of national life, legislative products, government implementation, and the interests of the people's benefit. The legislative product is a reflection of the phrase "taxation without representation is robbery" which is attached to Article 23A of the 1945 Constitution, state costs (budgetary costs) are covering opportunity costs in using state tools to enforce rights, and the state's benefit is the essence of the state as an entity.

The emphasis on the second characteristic places taxes in the context of a constellation of interests and ideology. The first reason is that it is a legitimate authority carried out by the government based on the results of the legislative process. The second reason is that it is an integral part of the political system which is attached to state policy makers for the benefit of the people. The final reason, the facts show that various groups representing different interests are fighting for influence in tax policy such as: determining the amount of tariffs, the nature of tax imposition, providing incentives and facilities, closing tax avoidance loopholes, and so on.

## 2. Challenges Faced in Tax Regulations Related to Artificial Intelligence in Indonesia

Tax regulations related to Artificial Intelligence (AI) in Indonesia are faced with various complex and challenging challenges. The rapid development of AI technology has given rise to various legal issues that need to be addressed so that legal regulations can facilitate the effective and sustainable use of AI technology. Some of the challenges faced in tax regulations related to AI in Indonesia include:

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- a. **Regulatory Incompatibility:** Current tax regulations in Indonesia are not yet able to comprehensively accommodate the dynamics and complexity of AI technology. This can result in legal loopholes and legal uncertainty in regulating the use and development of AI in various sectors.
- b. **Protection of Personal Data:** The use of AI technology often involves the processing of users' personal data. The main challenge in legal regulations related to AI is how to maintain the security and privacy of users' personal data so that it is not misused by irresponsible parties.
- c. **Legal Responsibility:** The concept of legal responsibility in the context of AI is still debated. The question of who is responsible for AI actions that cause loss or damage remains a complex issue and requires clarification in legal regulations.
- d. **Ethics and Transparency:** Decision making by AI systems can be influenced by bias or decisions that cannot be explained transparently. The challenge in legal regulation is how to ensure that the development and use of AI is carried out with the correct ethical principles and high transparency.
- e. **Human Resource Readiness:** Legal regulations related to AI are also faced with the challenge of human resource readiness in understanding and implementing applicable regulations. Adequate training and education is needed for stakeholders to be able to properly implement legal regulations related to AI.

In facing the challenges above, cooperation is needed between the government, legal institutions, the technology industry, academics and society in developing legal regulations that are progressive and responsive to developments in AI technology. Through cross-sector dialogue and in-depth studies, it is hoped that AI-related tax regulations in Indonesia can create a conducive environment for innovation and responsible and sustainable use of AI technology.

#### **4. Conclusion**

Based on the discussions above, it can be concluded that tax regulations related to Artificial Intelligence (AI) in Indonesia face various complex and challenging challenges. The concept of

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AI as a legal subject raises various questions about AI's rights and obligations, while existing regulations are not yet fully able to accommodate the dynamics of AI technology. Challenges such as personal data protection, legal responsibility, ethics, transparency and human resource readiness are crucial issues that need to be addressed. To overcome these challenges, comprehensive and integrated efforts are needed, such as revision of legal regulations, cross-sector collaboration, education and training, formation of regulatory bodies, and strengthening ethics and transparency. By taking these steps, it is hoped that legal regulations related to AI in Indonesia can accommodate the development of AI technology. Based on the conclusions above, the author provides several suggestions as follows: There is a need to develop clear and comprehensive tax legal regulations regarding the use and development of Artificial Intelligence (AI) in Indonesia. Appropriate regulations will help regulate the ethical and responsible use of AI. government, industry, academia and civil society to create a balanced framework between advances in AI technology and the social interests of society. Support adequate education and training for accounting professionals, tax officials and technology practitioners to understand and overcome the legal challenges that arise with the development of AI. Encourage research and innovation in the fields of law and technology to strengthen understanding of the legal implications of the use of AI.

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