Article Type: Research

Taxing the Untaxed: A Policy Analysis of Income Taxation on Illegal Economic Activities in Indonesia

Indra Yanuareza Adianto[1], Budi Arifandi[1]

AFFILIATION:
[1] Ministry of Finance, Republic of Indonesia

***CORRESPONDENCE:**
indra.adianto@kemenkeu.go.id

ARTICLE HISTORY
Received:
24 February 2026
Reviewed:
28 February 2026
Revised:
2 March 2026
Accepted:
7 March 2026

Indonesia's persistently low tax-to-GDP ratio—hovering between 9.6% and 10.4% in recent years—reflects, among other factors, a substantial and largely untaxed shadow economy estimated at 30–40% of GDP. This paper examines the feasibility and policy implications of extending income tax obligations to cover income derived from illegal economic activities in Indonesia. Drawing on a comparative analysis of existing frameworks in the United States and Australia, and situating these within Indonesia's current legal architecture under Law No. 7 of 2021 on Tax Regulation Harmonization (Undang-Undang Harmonisasi Peraturan Perpajakan/HPP), the paper identifies a legal grey area: illegal-source income is neither explicitly included in nor excluded from taxable income under current Indonesian law. The paper proposes a two-tier classification of illegal economic activities—distinguishing activities involving legal goods or services conducted illegally from those intrinsically illegal in nature—and recommends differentiated tax treatment for each. The paper further argues that enhanced inter-agency cooperation among the Directorate General of Taxes (DGT), the Financial Transaction Reports and Analysis Centre (PPATK), law enforcement bodies, and financial institutions is essential for operationalising such a framework. The findings suggest that, if carefully implemented, taxation of illegal income can simultaneously increase tax revenue, reduce the shadow economy, raise the tax ratio, and serve as an ancillary enforcement tool against organised crime.
Keywords: illegal income taxation; shadow economy; Indonesia tax policy; tax ratio; Directorate General of Taxes; underground economy; tax compliance

Introduction

Indonesia's public finances are heavily reliant on tax revenues. In the 2024 State Budget (APBN 2024), tax revenues were targeted at IDR 2,307.9 trillion, representing approximately 83% of total domestic revenue (Ministry of Finance of the Republic of Indonesia, 2023). Of this, the Directorate General of Taxes (DGT) bore responsibility for collecting IDR 1,986.9 trillion—or roughly 86% of total tax revenues. Despite this structural reliance on taxation, Indonesia's tax-to-GDP ratio has remained stubbornly low. Between 2000 and 2023, the ratio peaked at 12.5% in 2008, declined sharply to 8.3% in 2020, and recovered only modestly to 10.2% by the third quarter of 2023 (Badan Pusat Statistik/BPS & Laporan Keuangan

Pemerintah Pusat/LKPP, 2023). These figures place Indonesia well below the average of peer middle-income economies and far below the government's own ambition of raising the ratio to 23%, as articulated by the incoming administration of President Prabowo Subianto.

A significant contributor to this fiscal underperformance is the scale of Indonesia's shadow economy. Estimates by Faisal Basri (2014), former Finance Minister Chatib Basri (as cited in Gunadi, 2004), and the Financial Transaction Reports and Analysis Centre (PPATK) converge around 30–40% of GDP. BPS (2021) offers a more conservative estimate of 8.3–10% of GDP when using narrower definitions. Regardless of the precise figure, the consensus is clear: a vast pool of economic activity escapes the formal tax net.

Within the broader shadow economy, illegal economic activities warrant particular attention. Data reported by PPATK reveals the sheer scale of such activity: narcotics-related transactions amounted to IDR 400 trillion over the 2016–2021 period (approximately IDR 66.67 trillion per year); online gambling transactions reached IDR 327 trillion in 2023 alone—a 213% increase from 2022; and illegal investment schemes, including robot trading, recorded IDR 35 trillion in transactions in 2022 (PPATK, 2021, 2022, 2024). These figures represent only the subset of illegal transactions that authorities have been able to detect and quantify.

Given these realities, this paper explores the question: can—and should—Indonesia extend its income tax obligations to cover income derived from illegal economic activities? This is not merely a revenue question. It is also a question of legal architecture, administrative feasibility, inter-agency cooperation, and the risk of public misperception. The paper proceeds as follows. Section 2 reviews the literature on shadow economies and situates illegal economic activities within that framework. Section 3 examines how two comparable jurisdictions—the United States and Australia—have approached the taxation of illegal income. Section 4 analyses Indonesia's current legal framework and identifies the existing grey area. Section 5 presents the policy analysis, including a proposed classification framework. Section 6 discusses implementation requirements. Section 7 concludes with recommendations.

Shadow Economy and Illegal Economic Activities: A Conceptual Framework

2.1 Defining the Shadow Economy

The term "shadow economy" has been defined variously across the literature, reflecting differences in analytical focus and measurement methodology. Medina and Schneider (2018), in a comprehensive IMF Working Paper covering 158 countries over 50 years, define the shadow economy as comprising all economic activities hidden from official authorities for monetary, regulatory, or institutional reasons. Monetary reasons include the avoidance of taxes and social security contributions; regulatory reasons refer to the circumvention of bureaucratic requirements; and institutional reasons encompass weaknesses in the rule of law and political institutions.

Enste and Schneider (2000), in their foundational article in the Journal of Economic Literature, provide a widely-cited typology that explicitly incorporates illegal activities as a component of the shadow economy (see Table 1). They define the shadow economy broadly as "all currently legal or illegal economic activities that contribute to the officially calculated (or observed) gross national product but which are currently not registered" (p. 78). Philip Smith (1994) similarly employs the term "underground economy" to describe production of goods and services—whether legal or illegal—that escapes official GDP calculations.

Feige (1990), in a seminal contribution in World Development, distinguishes four sub-categories of the underground economy: the illegal economy, the unreported economy, the unrecorded economy, and the informal economy. The illegal economy is defined as comprising income generated by activities that violate statutory law, including the production and distribution of prohibited goods and services such as drug trafficking, stolen goods, and illegal gambling. Witte (1996) further distinguishes between "pure tax evasion," "irregular economy," and "illegal activities"—the last referring specifically to violations of criminal law. She subdivides illegal activities into: (a) unlawful transfers of legal goods and services (e.g., insider trading); and (b) production and distribution of inherently illegal goods and services (e.g., narcotics). This two-part typology, as will be argued in Section 5, provides a useful basis for designing differentiated tax treatment.

Nizar and Purnomo (2011), in an Indonesia-focused study published in Kajian Ekonomi dan Keuangan, define shadow economy activities as those occurring within the national economy but excluded from official GDP calculations. The authors estimate Indonesia's underground economy at 27–38% of GDP during their study period, providing one of the few empirical benchmarks specifically calibrated to Indonesian conditions. BPS uses the narrower concept of "informal sector," covering own-account workers, unpaid family workers, casual labourers,

and free workers in agriculture and non-agricultural sectors, producing the more conservative estimate of 8.3–10% cited above.

Table 1

Typology of Shadow Economy Activities

Type of Activity	Monetary Transactions	Non-Monetary Transactions
Illegal Activities	Trade in stolen goods; drug trafficking; prostitution; gambling; smuggling; piracy; fraud	Barter of drugs, stolen goods, pirated material; home production of prohibited substances for personal use
Legal Activities (Tax Evasion)	Unreported self-employment income; undeclared wages, salaries, and assets from legal goods and services	Employee perquisites and social security benefits; barter of legal goods and services
Legal Activities (Tax Avoidance)	Do-it-yourself and neighbour help activities	All own-account work; neighbourhood assistance

Source: Enste and Schneider (2000, p. 79), adapted from Schneider and Enste (1999).

2.2 Indonesia's Shadow Economy: Scale and Composition

The size of Indonesia's shadow economy has been approached through multiple estimation methods yielding broadly consistent results at the upper bound. Faisal Basri (2014) estimated it at approximately 35% of GDP. Chatib Basri (as cited in Gunadi, 2004) placed it at 30–40% of GDP, consistent with PPATK's own assessments. Using the currency demand approach pioneered by Tanzi (1983) and applied to Indonesian data, Nizar and Purnomo (2011) produced estimates in the range of 27–38% of GDP. BPS's narrower informal sector estimate of 8.3–10% (2021) reflects a definitional choice to exclude criminal activities rather than a fundamentally lower shadow economy.

Kar and Spanjers (2015) estimate that Indonesia lost approximately USD 180 billion in illicit financial flows between 2004 and 2013, driven primarily by trade misinvoicing. This figure, while broader than the shadow economy concept, underscores the magnitude of economic activity that escapes official recording and taxation.

Illegal economic activity constitutes a meaningful and quantifiable subset of Indonesia's shadow economy. The PPATK data cited in the introduction—IDR 400

trillion in narcotics transactions (2016–2021), IDR 327 trillion in online gambling (2023), and IDR 35 trillion in illegal investment schemes (2022)—represent only what has been detected. The total volume of untaxed illegal income is almost certainly much larger.

International Comparative Analysis: How Other Jurisdictions Tax Illegal Income

3.1 The United States

The United States provides the most developed and historically significant framework for the taxation of illegal income. The constitutional basis derives from the Sixteenth Amendment (ratified 3 February 1913), which grants Congress the power to "lay and collect taxes on incomes, from whatever source derived" (U.S. Constitution, Amendment XVI). The phrase "from whatever source derived" was a deliberate drafting choice; Congress removed the word "lawful" from the original 1913 Revenue Act just three years after enactment, opening the door to taxing all income regardless of its origin (Bittker, 1974).

The pivotal judicial development came in 1927, when the U.S. Supreme Court ruled in United States v. Sullivan (274 U.S. 259) that illegally obtained income was subject to income tax. This principle was dramatised in the landmark criminal prosecution of Alphonse Capone (United States v. Capone, 56 F.2d 927, 7th Cir. 1932). Having failed to secure convictions on charges of murder, bootlegging, and organised crime, federal authorities successfully prosecuted Capone for income tax evasion on income derived from his illegal enterprises, resulting in an 11-year federal prison sentence (Brun et al., 2022). This precedent established that the tax system could serve as an enforcement instrument against organised crime in circumstances where direct criminal prosecution was impractical.

Today, the Internal Revenue Service (IRS) makes this obligation explicit. IRS Publication 17 (2023) states that income from illegal activities—including illegal drug sales—must be reported as income on Schedule 1 (Form 1040), line 8z, or Schedule C (Form 1040). IRS Publication 525 (2023) further specifies that bribes received must be treated as income, and that the fair market value of stolen property must be reported as income in the year of the theft, unless it is returned to the rightful owner. Critically, for tax reporting purposes such income is classified under "Other Income" rather than a category identifying the illegal source, providing a degree of administrative confidentiality that may encourage voluntary compliance (Brun et al., 2022).

3.2 Australia

Australia adopted an explicit framework for taxing illegal income through Taxation Ruling TR 93/25, issued by the Australian Taxation Office (ATO) in 1993 and updated by Addendum TR 93/25A1 in 2022. The ruling interprets subsection 25(1) of the Income Tax Assessment Act 1936 (subsequently superseded by section 6-5 of the Income Tax Assessment Act 1997), which assesses income "from all sources."

TR 93/25 holds that income arising from a systematic activity bearing the characteristics of a business is assessable whether that activity is legal or illegal. The key test is whether the activity is conducted repeatedly, regularly, and with a profit motive. Activities covered under the ruling include drug trafficking, insider trading, embezzlement, and prostitution. The ATO thus adopts a source-neutral approach: the legal or illegal character of the income-generating activity is irrelevant to its assessability.

Importantly, however, TR 93/25 draws a distinction regarding deductibility. A taxpayer convicted of an illegal activity is denied deductions for losses and outgoings incurred in conducting that illegal enterprise—a right ordinarily available in legitimate business contexts. This asymmetric treatment (full assessability, no deductibility) effectively increases the effective tax burden on convicted illegal income earners, reinforcing the punitive dimension of the framework.

3.3 Comparative Insights

Both jurisdictions demonstrate that taxing illegal income is legally feasible and administratively implementable. Key lessons for Indonesia include: (a) constitutional or statutory "source-neutral" language is the linchpin of a legally sound framework; (b) categorising illegal income under a generic "other income" rubric minimises reputational risk while preserving tax compliance incentives; (c) denying deductibility for illegal income earners after conviction adds a deterrence dimension; and (d) tax authorities should not proactively report taxpayers' illegal activities to law enforcement when the taxpayer voluntarily complies with tax obligations—a principle that, paradoxically, incentivises disclosure.

Indonesia's Current Legal Framework: The Grey Area Problem

4.1 Statutory Architecture of Income Tax

In Indonesia, the principal income tax statute is contained within Law No. 7 of 2021 on Tax Regulation Harmonization (Undang-Undang Harmonisasi Peraturan Perpajakan/HPP), which consolidated and amended the earlier Income Tax Law (Undang-Undang Pajak Penghasilan). Article 4(1) of the HPP Law defines taxable income as any increase in economic capacity received or accrued by a taxpayer, both from within and outside Indonesia, which can be used for consumption or to increase the wealth of the taxpayer in question, in whatever name and in whatever form. Mardiasmo (2018) notes that this definition is intentionally broad, covering all economic flows regardless of their nature or label.

Article 4(3) sets out categories explicitly excluded from taxable income, including grants, inheritance, endowments, insurance proceeds, dividends under certain conditions, scholarship income, and similar non-commercial receipts. The list is exhaustive rather than illustrative. Crucially, income from illegal activities appears neither in Article 4(1) as an enumerated example nor in Article 4(3) as an enumerated exclusion.

4.2 The Grey Area

This statutory silence creates what may be characterised as a legal grey area. On a strict literal interpretation, the broad language of Article 4(1)—"any increase in economic capacity ... in whatever name and in whatever form"—is capable of encompassing income from illegal sources. Income is income; the statute does not require it to be lawfully earned. The OECD's concept of taxes as "compulsory unrequited payments to general government" (OECD, 2023) similarly carries no lawfulness requirement for the underlying transaction.

However, because no specific provision, administrative ruling, or ministerial regulation has ever explicitly addressed the taxability of illegal-source income, there is no settled interpretive position in Indonesian tax law equivalent to IRS Publication 17 or ATO Taxation Ruling TR 93/25. Tax authorities lack a clear mandate to assess such income, and taxpayers receiving illegal income face neither a clear obligation to report it nor explicit exposure to penalties for non-reporting on those grounds alone.

This ambiguity is compounded by the sensitivity of the subject matter. Indonesian law criminalises the activities in question—narcotics trafficking, illegal gambling, smuggling, and related activities are all subject to serious criminal sanctions under the Criminal Code (KUHP), the Narcotics Law (Law No. 35 of 2009), the Anti-Money Laundering Law (Law No. 8 of 2010), and other statutes. Any perceived move by the tax authority to "accept" tax payments on illegal income risks public

misinterpretation as legitimisation of those activities—a concern that has historically constrained policy development in this area.

Policy Analysis: The Case for Taxing Illegal Income

5.1 Positive Externalities of Taxation

Notwithstanding the legal and political sensitivities, there are compelling arguments for extending Indonesia's income tax framework to cover illegal income. Four principal benefits may be identified.

First, and most directly, taxation of illegal income would increase tax revenues. The PPATK-identified transaction volumes cited above—IDR 762+ trillion across narcotics, gambling, and illegal investments in recent years alone—imply a substantial potential tax base. Even partial capture of this income at the standard progressive rates applicable under the HPP Law would meaningfully contribute to the DGT's revenue targets.

Second, such a measure would contribute to increasing Indonesia's tax ratio. As Alm (2019) and Slemrod and Yitzhaki (2002) observe, broadening the tax base—through both enforcement against non-compliant formal-sector taxpayers and extension of tax obligations into the informal and illegal sectors—is consistently more effective at raising revenue than rate increases. Raising the tax ratio from 10% toward the 23% target articulated by the Prabowo administration will require precisely such structural base-broadening.

Third, the formalisation of illegal income as a taxable category would reduce the measured shadow economy, since bringing previously hidden transactions into the tax net is definitionally equivalent to reducing the size of the informal and underground economy (Enste & Schneider, 2000; Nizar & Purnomo, 2011). This aligns with Indonesia's broader economic formalisation agenda.

Fourth, as the Al Capone precedent illustrates, income tax obligations on illegal earnings can serve as an enforcement instrument of last resort. When law enforcement agencies lack sufficient evidence to secure criminal convictions for the predicate offence, a tax evasion charge predicated on unreported illegal income can be a viable prosecutorial alternative (Brun et al., 2022). DGT could function as a force multiplier for law enforcement, particularly for organised crime syndicates that generate large cash flows.

5.2 Risks and Negative Externalities

These benefits must be weighed against three significant risks.

The most immediate risk is public misperception. If the government introduces provisions explicitly taxing narcotics income, gambling proceeds, or proceeds of human trafficking, a portion of the public—and some media—may interpret this as de facto legalisation of the underlying activities. This reputational risk is real and has been observed in other jurisdictions that have introduced or discussed similar measures. It necessitates careful drafting, extensive public communication, and legislative messaging that clearly distinguishes taxation from legalisation.

A related risk is the potential for perverse incentives: if people misinterpret tax acceptance of illegal income as governmental tolerance, participation rates in illegal activities could increase. This would be harmful not only socially but fiscally, as the increased externalities—healthcare, law enforcement, judicial costs—associated with expanded illegal activity would likely outweigh any incremental tax revenue.

Third, there is a reputational risk to the government itself. A policy of taxing illegal income, if poorly communicated, may be perceived as an indication of fiscal desperation, potentially undermining public confidence in the government's fiscal management capacity and, paradoxically, reducing voluntary tax compliance among the broader population (Slemrod, 2007).

5.3 A Two-Tier Classification Framework

The key to capturing the benefits of taxing illegal income while mitigating its risks lies in the adoption of a principled and publicly defensible classification framework. Drawing on Witte's (1996) taxonomy, this paper proposes that Indonesian policy distinguish between two categories of illegal economic activity for tax purposes:

1. Category A – Legal goods or services conducted illegally. This category encompasses activities involving goods or services that are not inherently prohibited but that are conducted in violation of law—including smuggling of rice, consumer goods, or electronic products; services provided by undocumented migrant workers; insider trading; and similar commercial activities conducted outside legal channels.
2. Category B – Activities illegal in their very nature. This category covers the production or distribution of goods or services that are unlawful per se, including narcotics trafficking, human trafficking, prostitution, illegal gambling, and related activities.

For Category A activities, the policy prescription is relatively straightforward: income from such activities should be reported as "Other Income" in annual tax returns, analogous to the U.S. Schedule 1 approach. The legalisation risk is minimal, since the underlying goods and services are legal; only the channel is irregular. Revenue from such income would flow to the state, effectively formalising what was previously an untaxed commercial activity. The DGT's PMK 70/PMK.03/2017 framework for financial information access would provide the legal basis for information-gathering in this regard, though that regulation has since been superseded by updated regulations.

For Category B activities, the policy challenge is more complex. The paper recommends that, rather than creating a voluntary reporting pathway (which carries greater legalisation-perception risk), the emphasis should be placed on

criminal asset recovery with the proceeds classified as tax-related revenue. Where illegal income is identified through law enforcement action, the full value should be subject to both criminal confiscation and parallel tax assessment under existing authority. This mirrors practice in several OECD member states, where tax assessments accompany criminal prosecutions as a matter of course (OECD, 2017).

Implementation: Inter-Agency Cooperation and Data Infrastructure

6.1 The Role of PPATK

The operationalisation of any taxation framework for illegal income will depend critically on the availability of financial intelligence data. PPATK's track record in quantifying illegal transaction flows—demonstrated by its estimates on narcotics, gambling, and illegal investments—establishes its capacity as a primary data source. The Terrorism Financing Prevention and Eradication Law (Law No. 9 of 2013) and the Anti-Money Laundering Law (Law No. 8 of 2010) already authorise PPATK to share financial intelligence with law enforcement and, under appropriate conditions, with the DGT.

A structured data-sharing protocol between DGT and PPATK—extending beyond existing arrangements to cover suspicious transaction reports (STRs) with potential tax implications—would enable DGT to identify potential illegal income recipients for tax assessment purposes. This is distinct from directing DGT to conduct criminal investigations; DGT's mandate would remain fiscal, not penal.

6.2 Lessons from OECD Frameworks

The OECD's work on effective inter-agency cooperation in fighting tax crimes and other financial crimes (OECD, 2017) identifies three primary models for information exchange between tax authorities and law enforcement agencies that are directly relevant to Indonesia's situation. The first model involves direct database access—illustrated by Chile's closed-access web portal giving prosecutors direct access to tax information, and Estonia's shared intelligence database between the tax authority and police. The second model is joint investigation task forces—as exemplified by Australia's Serious Financial Crime Taskforce (SFCT), which integrates the ATO with the Australian Federal Police, the Financial Intelligence Unit, and other agencies on complex financial crime matters.

The third model involves spontaneous information sharing—as practised in the Czech Republic, where tax authorities are required to proactively report suspicious cases to prosecutors.

Indonesia's own legal framework contains elements of all three models. The DGT already has authority to exchange information with law enforcement under government regulation, and Law No. 8 of 2010 mandates cooperation among relevant agencies on anti-money laundering matters. What is currently lacking is a systematic, operationalised framework specifically addressing tax implications of illegal income detection—equivalent in specificity to the OECD's recommended practices.

6.3 Financial Sector Data

Beyond PPATK, the DGT's existing authority under the financial information access framework (as established by PMK 70/PMK.03/2017 and its successors) enables access to financial account data from banks, insurance companies, securities firms, and other financial institutions for tax purposes. This authority, which reflects Indonesia's commitment to the OECD's Automatic Exchange of Information (AEoI) framework, can be deployed to identify financial flows associated with illegal economic activities, particularly for Category A activities where the income may transit through formal financial channels. Basri et al. (2021), in their study of corporate taxation in Indonesia, demonstrate that administrative improvements in data access and cross-matching can substantially increase revenue without rate changes—a finding directly applicable to the illegal income context.

Conclusion and Recommendations

This paper has argued that the taxation of income derived from illegal economic activities is both legally feasible and fiscally desirable in the Indonesian context, provided it is implemented through a carefully designed, differentiated framework that mitigates the risk of public misperception. Indonesia's income tax statute already contains the broad definitional language necessary to support such taxation—"any increase in economic capacity ... in whatever name and in whatever form"—without requiring fundamental legislative reform. The gap is one of explicit legal recognition, administrative framework, and inter-agency coordination rather than basic legal authority.

The comparative evidence from the United States and Australia demonstrates that source-neutral income taxation is workable. The American experience, from the

constitutional language of the Sixteenth Amendment through to the Al Capone prosecution and the contemporary IRS publication framework, shows that illegal income can be taxed without legalising the underlying activity. Australia's TR 93/25 provides a civil law analogue that is closer to Indonesia's legal tradition and easier to transpose.

Based on the analysis above, the paper makes the following recommendations:

1. Legislative Clarification. The DGT, in cooperation with the Ministry of Finance, should consider issuing a ministerial regulation or tax ruling explicitly affirming that income from illegal economic activities falls within the scope of taxable income under Article 4(1) of the HPP Law, and that no exclusion under Article 4(3) applies to such income. A longer-term legislative amendment to the HPP Law itself, modelled on the explicit language of IRS Publication 17, would provide greater legal certainty.
2. Adoption of the Two-Tier Classification Framework. Policy design should explicitly distinguish Category A (legal goods/services conducted illegally) from Category B (activities illegal in nature), with differentiated treatment: voluntary "Other Income" reporting for Category A; criminal asset recovery with concurrent tax assessment for Category B.
3. Inter-Agency Coordination Framework. DGT should establish a formal and operationalised cooperation protocol with PPATK, the Attorney General's Office, the National Police (POLRI), the Directorate General of Immigration, and the Financial Services Authority (OJK), covering systematic data-sharing, joint investigation procedures, and spontaneous reporting mechanisms for tax-relevant suspicious transactions.
4. Comparative Study. Before formal implementation, DGT should conduct in-depth benchmarking visits to the IRS (United States) and ATO (Australia) to study operational aspects of their illegal income taxation frameworks, including administrative categorisation practices, inter-agency information protocols, and staff training requirements.
5. Public Communication Strategy. Any regulatory or legislative initiative in this area must be accompanied by a sustained, multi-channel public communication campaign that clearly distinguishes taxation of illegal income from legalisation of the underlying activities. Engagement with civil society, religious organisations, and media stakeholders will be essential to managing the reputational risk identified in Section 5.2.
6. Near-Term Action Under Existing Authority. In the short term, even absent new regulation, DGT can begin mapping illegal economic activities—by type,

geographic concentration, and estimated value—using data from PPATK and financial institutions, and can commence tax assessments under existing authority where sufficient financial information is available. This would establish administrative precedent and build institutional capacity ahead of formal regulatory changes.

Indonesia's fiscal ambitions—a tax ratio approaching 23%, sustainable APBN financing, reduced shadow economy—will not be achievable through conventional approaches alone. Extending the tax net to cover illegal income is not a panacea, but it is a meaningful and under-exploited dimension of fiscal reform that merits urgent policy attention.

References

Alm, J. (2019). Can Indonesia reform its tax system? Problems and options. Tulane Economics Working Paper Series, No. 1906. Tulane University. https://repec.tulane.edu/RePEc/pdf/tul1906.pdf

Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. Journal of Public Economics, 1(3–4), 323–338. https://doi.org/10.1016/0047-2727(72)90010-2

Australian Taxation Office. (1993). TR 93/25: Income Tax—assessability of proceeds from illegal activities, treatment of amounts recovered, and deductibility of fines and penalties. ATO. https://www.ato.gov.au/law/view/view.htm?docid=TXR/TR9325/NAT/ATO/00001

Australian Taxation Office. (2022). TR 93/25A1: Addendum to Taxation Ruling TR 93/25. ATO. https://www.ato.gov.au/law/view/document?docid=TXR/TR9325A1/NAT/ATO/00001

Badan Pusat Statistik. (2021). Laporan Perekonomian Indonesia 2021 [Indonesian Economic Report 2021]. BPS–Statistics Indonesia.

Basri, F. (2014, January 2). Potret ekonomi: Mengarah pada krisis peradaban? [Economic portrait: Heading toward civilisational crisis?]. Faisal Basri personal blog. https://faisalbasri.com/2014/01/02/potret-ekonomi-mengarah-pada-krisis-peradaban/

Basri, M. C., Felix, M., Hanna, R., & Olken, B. A. (2021). Tax administration versus tax rates: Evidence from corporate taxation in Indonesia. American Economic Review, 111(12), 3827–3871. https://doi.org/10.1257/aer.20201237

Bittker, B. I. (1974). Taxing income from unlawful activities. Case Western Reserve Law Review, 25(1), 130–146.

Brun, J.-P., Cebreiro Gomez, A., Julien, R., Ndubai, J. W., Owens, J., Rao, S., & Soto, Y. E. (2022). Taxing crime: A whole-of-government approach to fighting corruption, money laundering, and tax crimes. Stolen Asset Recovery Initiative Series (StAR). World Bank. https://doi.org/10.1596/978-1-4648-1873-8

Enste, D. H., & Schneider, F. (2000). Shadow economies: Size, causes, and consequences. Journal of Economic Literature, 38(1), 77–114. https://doi.org/10.1257/jel.38.1.77

Feige, E. L. (1990). Defining and estimating underground and informal economies: The new institutional economics approach. World Development, 18(7), 989–1002. https://doi.org/10.1016/0305-750X(90)90081-8

Gunadi. (2004). Rasionalitas reformasi administrasi perpajakan [The rationality of tax administration reform]. Inaugural professorial lecture, Faculty of Social and Political Sciences, Universitas Indonesia, 13 March 2004.

Internal Revenue Service. (2023a). Your federal income tax for individuals (Publication 17, Catalog No. 10311G). U.S. Department of the Treasury. https://www.irs.gov/publications/p17

Internal Revenue Service. (2023b). Taxable and nontaxable income (Publication 525, Catalog No. 15047D). U.S. Department of the Treasury. https://www.irs.gov/publications/p525

Kadokura, T. (2007). Japan's underground economy: Tax evasion, bribery, prostitution, and drugs. Japanese Economy, 34(2), 1–124. https://doi.org/10.2753/JES1097-203X340200

Kar, D., & Spanjers, J. (2015). Illicit financial flows from developing countries: 2004–2013. Global Financial Integrity. https://gfintegrity.org/report/illicit-financial-flows-from-developing-countries-2004-2013/

Kemenkeu RI. (2023). Buku II Nota Keuangan RAPBN Tahun Anggaran 2024 [Financial Note Book II for the 2024 State Budget]. Ministry of Finance of the Republic of Indonesia.

Laporan Keuangan Pemerintah Pusat (LKPP) & Badan Pusat Statistik (BPS). (2023). Tax ratio data Indonesia 2000–2023. Ministry of Finance of the Republic of Indonesia & Statistics Indonesia.

Mardiasmo. (2018). Perpajakan: Edisi terbaru 2018 [Taxation: Latest edition 2018]. CV Andi Offset. ISBN: 978-979-29-6794-4

Medina, L., & Schneider, F. (2018). Shadow economies around the world: What did we learn over the last 20 years? IMF Working Paper No. WP/18/17. International Monetary Fund. https://doi.org/10.5089/9781484338636.001

Nizar, M. A., & Purnomo, K. (2011). Potensi penerimaan pajak dari underground economy di Indonesia [Tax revenue potential from underground economy in Indonesia]. Kajian Ekonomi dan Keuangan, 15(2), 1–35. https://doi.org/10.31685/kek.v15i2.93

Organisation for Economic Co-operation and Development. (2017). Effective inter-agency co-operation in fighting tax crimes and other financial crimes (3rd ed.). OECD Publishing. https://doi.org/10.1787/af874d4a-en

Organisation for Economic Co-operation and Development. (2023). The OECD classification of taxes and interpretative guide. In Revenue Statistics 2023. OECD Publishing. https://doi.org/10.1787/9d0453d5-en

Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK). (2021). Data transaksi narkoba di Indonesia periode 2016–2021 [Narcotics transaction data in Indonesia 2016–2021]. PPATK Press Release, 21 December 2021. https://www.ppatk.go.id

Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK). (2022). Mengamankan hasil tindak pidana lintas batas negara: Implementasi regulasi tunda, henti dan blokir transaksi [Securing cross-border crime proceeds: Implementation of freeze, halt and block transaction regulations]. https://www.ppatk.go.id/news/read/1324/

Pusat Pelaporan dan Analisis Transaksi Keuangan (PPATK). (2024). Refleksi kerja PPATK tahun 2023: Transaksi judi online mencapai Rp327 triliun [PPATK 2023 year-in-review: Online gambling transactions reached IDR 327 trillion]. Press Conference, 10 January 2024. https://www.ppatk.go.id/news/read/1373/

Schneider, F., & Enste, D. H. (1999). Shadow economies around the world: Size, causes, and consequences. CESifo Working Paper Series No. 196. CESifo. https://ideas.repec.org/p/ces/ceswps/_196.html

Simon, C. P., & Witte, A. D. (1982). Beating the system: The underground economy. Auburn House Publishing.

Slemrod, J. (2007). Cheating ourselves: The economics of tax evasion. Journal of Economic Perspectives, 21(1), 25–48. https://doi.org/10.1257/jep.21.1.25

Slemrod, J., & Yitzhaki, S. (2002). Tax avoidance, evasion, and administration. In A. J. Auerbach & M. Feldstein (Eds.), Handbook of public economics (Vol. 3, pp. 1423–1470). Elsevier. https://doi.org/10.1016/S1573-4420(02)80026-X

Smith, P. (1994). Assessing the size of the underground economy: The Statistics Canada perspective. Canadian Economic Observer (Statistics Canada, Catalogue No. 11-010), 7(5), 3.16–3.33.

Tanzi, V. (1983). The underground economy in the United States: Annual estimates, 1930–80. IMF Staff Papers, 30(2), 283–305. https://doi.org/10.2307/3867001

Undang-Undang Republik Indonesia Nomor 7 Tahun 2021 tentang Harmonisasi Peraturan Perpajakan [Law of the Republic of Indonesia No. 7 of 2021 on Tax Regulation Harmonization]. Lembaran Negara Republik Indonesia Tahun 2021 Nomor 246. https://peraturan.bpk.go.id/details/185162/uu-no-7-tahun-2021

Witte, A. D. (1996). Beating the system? In S. Pozo (Ed.), Exploring the underground economy (pp. 129–146). W. E. Upjohn Institute for Employment Research. https://doi.org/10.17848/9780880994279.ch6