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A Review of Sharia Economic Law on Tax Reform in Indonesia

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Abstract

Tax reform is a crucial component of reforming the tax system to improve fairness, efficiency, and state revenue. From the perspective of Islamic economic law, tax reform must prioritize the principles of distributive justice, public welfare, and balance. This article aims to examine tax reform from an Islamic legal perspective, particularly regarding the extent to which the policy aligns with Islamic values. This research uses a normative approach with a literature review method. The results indicate that tax reform is acceptable under Islamic law if it meets the principles of the maqasid of Islamic law and does not unjustly burden the people. The integration of zakat (alms) into the tax system is also an important agenda for achieving fiscal justice that balances taxes and religious obligations.

I. INTRODUCTION

The tax system is a fundamental instrument for maintaining fiscal stability and supporting national development. Taxes not only serve as a primary source of state revenue but also serve as a tool for wealth redistribution, inflation control, and directing the country's economic policies (Mardiasmo, 2020). In Indonesia, taxes contribute more than 80% to the State Budget (APBN), demonstrating the central role of taxes in supporting the country's sustainability.

However, the reality on the ground shows that Indonesia's tax system still faces several crucial challenges, including low levels of tax compliance, a wide tax gap between potential and realized revenues, and public perceptions that the tax system is unfair and inefficient. To address these challenges, the government has launched a tax reform agenda, aiming to create a more equitable, efficient, and accountable tax system. This step is legally formalized in Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP Law), which brings several important changes, such as increasing the VAT rate, changing the income tax scheme, introducing a carbon tax, and strengthening the digitalization of the tax system.

This tax reform is certainly a significant breakthrough in the context of national economic development. However, in a predominantly Muslim country like Indonesia, fiscal policy implementation cannot be separated from religious norms, particularly Islamic economic principles. Sharia economic law has its own foundation for governing the relationship between the state and its citizens in financial matters, including the collection and use of public funds.

In this context, critical questions arise regarding the alignment of the implemented tax reform policy with Islamic economic principles such as justice (al-'adl), welfare (al-maslahah), transparency (al-amanah), and non-unjust burdens (ghuluw) (Karim, 2021). Unlike zakat, which is a religious obligation, taxes, from a sharia perspective, occupy a more flexible position, depending on the conditions and needs of the state.

History records that during the era of the Rashidun Caliphs and the Abbasid Dynasty, taxes such as kharaj, jizyah, and ushur were imposed to support state finances and maintain public welfare. Therefore, taxes are not rejected in Islam, but must meet the criteria of justice, beneficial purposes, and transparent collection mechanisms (Az-Zuhaili, 1989).

In practice, tax reform in Indonesia still does not fully reflect these sharia values. For example, the 11% increase in the VAT rate starting in 2022 automatically has a greater impact on low-income communities due to its regressive nature. This creates a moral dilemma because it contradicts the Islamic principle of al-'adl, which requires that the tax burden be adjusted to the capabilities of each individual or economic entity. Furthermore, there are minimal incentives for ethical economic behavior, such as productive waqf or the development of sharia-compliant MSMEs. Furthermore, the implementation of tax reform policies still tends to be solely oriented towards fiscal efficiency and revenue generation. However, in Islamic economics, distributive justice and protection of marginalized groups are top priorities.

Therefore, the urgency of reviewing the direction of tax reform policy through the lens of Islamic economic law is becoming increasingly important. The goal is not to replace the existing system, but rather to provide ethical and normative input so that tax policy is more in line with the values of social justice that underlie Islamic teachings (Auda, 2018). This study of tax reform from the perspective of Islamic economic law is relevant not only from an academic perspective but also from a public policy perspective. Indonesia is currently striving to expand the application of Islamic principles in various aspects of economic life, including state financial management.

The issuance of sovereign sukuk, the development of Islamic banks, and the establishment of the National Committee for Islamic Finance (KNKS) are concrete examples that the integration of Islamic values into the national economic system is not utopian, but real and evolving. To clarify the direction of the discussion, the research questions are formulated as follows: 1. What is the perspective of Islamic economic law on the concept and implementation of tax reform in Indonesia? 2. Is tax reform in Indonesia in line with the principles of justice in Islamic economics? 3. How can the integration of Islamic values be implemented in national tax reform policy?

This research aims to provide a normative and critical analysis of tax reform policies from the perspective of Islamic economic law. It is hoped that the results of this study will contribute to policymakers' thinking so that Indonesian taxation is not only valid under national law but also in accordance with the principles of Islamic justice.

II. RESEARCH METHODS

This study employed a normative qualitative research method, an approach that focuses on document and literature review as the primary sources for answering the research questions. This approach is relevant for legal studies, particularly Islamic economic law, as it emphasizes exploring normative concepts and applicable legal principles from both a sharia perspective and positive legislation in Indonesia.

This research uses a conceptual and a legislative approach. The conceptual approach explores fundamental views in Islamic economic law regarding the concepts of fiscal justice, wealth distribution, and the principles of maqasid al-sharia within the context of public policy.

Meanwhile, a statutory approach was used to analyze laws and regulations related to tax reform in Indonesia, such as Law Number 7 of 2021 concerning the Harmonization of Tax Regulations (HPP Law) and its derivative technical regulations. This research examines relevant laws and regulations and their application in practice. Therefore, the data obtained are primary from legal documents and secondary from related literature.

The research procedure included data collection through library research, both in print and digital formats. All literature was critically reviewed and selected based on its relevance, author authority, and contribution to the discussion of the problem.

This data collection technique is combined with content analysis, namely a method for understanding the substantial meaning of the contents of legal documents and sharia literature by identifying key themes related to the topic of tax reform and the principles of Islamic law.

The data obtained were then analyzed descriptively-analystically, namely by systematically describing, outlining, and interpreting the principles of Islamic economic law related to taxes and fiscal justice, and comparing them with the reality of tax reform implementation in Indonesia. This analysis process aims to produce a synthesis of constructive, critical, and applicable thoughts in assessing the extent to which current national tax policies have accommodated Sharia values. Thus, to maintain the validity and reliability of the study results, the researcher conducted source triangulation, namely by comparing and confirming data from various types of literature and the views of experts in the field of Islamic law and taxation.

With this approach, the results of the study are expected to not only represent a single view, but to become a collective conclusion that can be academically accounted for.

III. RESULTS AND DISCUSSION

This research shows that tax reform in Indonesia has had a significant impact on modernizing the national tax system. The policies introduced through the 2021 Law on the Harmonization of Tax Regulations (UU HPP) serve as the primary legal basis for responding to global challenges, adapting to the development of the digital economy, and expanding the state revenue base. The tax reform encompasses several dimensions, including simplifying Income Tax (PPh) rates, increasing Value Added Tax (VAT) rates, administrative reform, and digitizing the tax system.

Based on data collected through literature studies and regulatory analysis, it can be concluded that tax reform in Indonesia aims to improve the efficiency and fairness of the tax system. Improving tax compliance is a key focus. Observations also indicate an increase in the tax ratio, although it has not yet reached the ideal target of 15% of Gross Domestic Product (GDP).

This reform also encourages the integration of the tax system with the digital financial system through the implementation of e-invoices, e-bupots, and online tax return (SPT) reporting. Substantively, tax reform in Indonesia embodies the spirit of creating a more inclusive, equitable, and adaptive tax system. However, from a sharia economic law perspective, there are several critical points. For example, the increase in the VAT rate to 11% is considered potentially increasing the consumption burden on the lower classes. This raises concerns regarding the principle of distributive justice, one of the objectives of maqasid al-shariah (Auda et al., 2018).

Field data analyzed in the Ministry of Finance's 2023 report shows that the majority of VAT revenue comes from consumption sectors involving the general public. This means that lower-income households contribute significantly to state revenue. Meanwhile, high-income groups contribute significantly to income tax (PPh), but significant tax avoidance remains among large corporations and elite entrepreneurs.

Furthermore, the study also found that Micro, Small, and Medium Enterprises (MSMEs) still face obstacles in adapting to tax reform policies. Some of the complaints that emerged include: minimal outreach, inadequate assistance in digital tax reporting, and limited Sharia tax literacy. In this context, institutional support such as the Zakat Collection Institution, the National Sharia Council (DSN), and the Sharia fiscal authority is crucial to oversee this reform so that it does not deviate from Islamic values (Mannan, 2020). Tax reform in Indonesia also shows opportunities for integration between fiscal obligations (taxes) and spiritual obligations (zakat).

Although zakat is not yet fully recognized as a tax deduction nationally, several regions and institutions have begun implementing the system. This step deserves praise as it can increase Muslim compliance in fulfilling two obligations simultaneously and serves as an alternative solution to achieving social justice (Al-Qaradawi, 2019). Considering these results, it can be concluded that the implementation of tax reform in Indonesia has significant potential to strengthen the national fiscal system, but must be accompanied by serious attention to the principles of justice, inclusion, and Sharia compliance.

Therefore, the recommendations that emerge from the results of this study are the need for continuous ethical and spiritual oversight of the implementation of tax policies, the involvement of Islamic financial institutions, and the strengthening of Sharia-based tax education (Auda et al., 2018).

A. The View of Islamic Economic Law on the Concept and Implementation of Tax Reform

In Islamic economic law, the tax system is not unfamiliar. Islam recognizes various forms of levies that bear similarities to taxes, such as zakat, kharaj, jizyah, and usyur. However, while Islam does not reject the concept of levies on citizens, the fundamental principles that must be upheld are justice, transparency, and compliance with the maqasid al-shariah, or the primary objectives of sharia, namely: safeguarding religion, life, intellect, posterity, and property (Auda et al., 2018).

Therefore, any form of tax reform undertaken by a country, including Indonesia, must be assessed in terms of its alignment with these principles. Conceptually, tax reform in Indonesia aims to simplify the system, increase taxpayer compliance, and broaden the tax base. This aims to strengthen state revenues to finance development.

From the perspective of Islamic economic law, the principles of distributive justice and public welfare are essential foundations for establishing fiscal policy. If tax reform is aimed at eliminating tax manipulation practices, preventing inequality, and building an efficient system, then this aligns with Islamic principles (Mannan et al., 2020). However, implementing tax reform also presents challenges. One of these is the increase in VAT rates, which is applied across the board, without considering income segmentation.

This tariff increase could have a regressive impact, increasing the burden on the poor, whose expenditures are more proportional to consumption than the wealthy. Under Islamic law, this can be criticized as contradicting the principle of distributive justice (Al-Qaradawi et al., 2019). Sharia encourages progressive, not regressive, policies, so that the fiscal burden falls more heavily on the wealthy.

Furthermore, from a maqasid al shariah perspective, tax reform implementation must ensure that no harm or damage occurs to vulnerable groups. In this context, tax policy implementation that is not balanced with subsidies, incentives, or reduced burdens for the poor can be considered inconsistent with the principle of wealth protection (hifz al-mal).

Therefore, tax reform should ideally be accompanied by fair wealth distribution tools, such as strengthening zakat institutions and Sharia-compliant cross-subsidies. The implementation of digitalization in the tax system can also be viewed from a Sharia perspective. On the one hand, digitalization can increase efficiency, transparency, and improve fiscal oversight. This is part of the principle of amanah (honesty and responsibility) in state financial management.

However, on the other hand, unequal access to technology and digital literacy poses a serious obstacle, especially for MSMEs and rural communities. In Islam, economic policy must be oriented towards equitable access and social inclusion to prevent structural inequalities between digital natives and digital laggards (Nurrohman, 2022). The integration of taxes and zakat has become an interesting discourse in Islamic economic law. Some contemporary scholars argue that zakat should be tax deductible, recognizing the dual obligation of Muslims regarding wealth distribution.

However, in practice, this has not been optimally realized in the national tax system. This model, however, would encourage Muslims to comply with both taxes and zakat, as they perceive the existing system as fair and non-burdensome. This integration also supports the spirit of worship and social contribution as a complementary whole (Rosly, 2021). Critically, tax reform must also uphold the principles of clarity (gharar), honesty (sidq), and balance (tawazun).

Taxes imposed without transparency or that are prone to misappropriation will only foster public distrust. Islam holds the rulers (ulil amri) responsible for distributing taxes for the benefit of the people, not the interests of the elite. Therefore, the involvement of Islamic financial institutions, religious scholars, and academics in the formulation of fiscal policy is crucial to ensure legitimacy and public acceptance.

B. The Compliance of Tax Reform with the Principles of Islamic Economic Justice

Tax reform in Indonesia, particularly following the enactment of the 2021 HPP Law, has numerous implications for the national economic system. One of the most crucial aspects to examine in the context of Islamic economic law is the reform's alignment with the principle of justice as stipulated in the maqasid al-syariah (obligatory principles of justice). From an Islamic perspective, justice (al-'adl) is the primary foundation of the entire system of transactions, including the imposition and distribution of taxes (Auda et al., 2018).

Islam emphasizes the importance of the principle of justice in all forms of economic transactions and policies. The Qur'an explicitly states: "Indeed, Allah commands you to act justly and to do good..." (Qur'an, An-Nahl: 90). Therefore, when a country undertakes tax reform, the parameter of justice becomes a crucial benchmark, particularly in the context of distributing the tax burden to the public (Shihab, 2015).

In practice, tax reform by increasing the VAT rate to 11% has drawn criticism from Islamic economists. This type of tax is imposed on public consumption regardless of income level. As a result, low-income groups bear a proportionally greater burden than the wealthy. This potentially violates the principle of distributive justice (al-'adl al-tawzi'i), namely the principle that economic burdens and benefits should be distributed fairly based on ability and need (Siddiqi, 2015).

Meanwhile, in the Islamic economic system, the imposition of fiscal obligations should be based on the principle of istitha'ah (capacity). This means that economically disadvantaged communities should not be forced to bear the same burden as the upper classes. In this regard, the zakat mechanism serves as a concrete example of how Islam establishes a fair fiscal system, as it is only imposed on those who meet the nisab and haul requirements (Al-Qaradawi et al., 2019).

Tax reforms have also not optimally bridged the integration between the tax and zakat systems. In the context of justice, zakat should ideally be recognized as a tax deduction to avoid double burdens for Muslims. Several studies indicate that hybrid zakat and tax systems have been successfully implemented in several Muslim countries, such as Malaysia and Pakistan (Karim et al., 2021).

Furthermore, the principle of justice in Islam is not only vertical (the relationship between individuals and the state) but also horizontal (between fellow citizens). In this context, tax reform should be able to reduce economic disparities and strengthen social solidarity. If reform only increases state revenue without considering the purchasing power of the poor, it will lose the spirit of Sharia justice (Mannan, 2020).

This review demonstrates that tax reform policies in Indonesia still face challenges in realizing the principles of Islamic justice. Despite progress such as digitalization of the tax system and administrative transparency, substantive justice still needs to be improved, both through progressive tariff design and recognition of zakat obligations within the national fiscal system (Arifin, 2022).

C. Integration of Sharia Values in National Tax Reform Policy

The integration of Sharia values into national tax reform policies is a necessity for a country with a Muslim majority population like Indonesia. In Islamic economic law, the fiscal system is not only interpreted as a tool for state revenue, but also as an instrument for the distribution of social justice and empowerment of the people. Therefore, the tax reform process must consider spiritual, moral, and social dimensions in accordance with Sharia principles (Auda et al., 2018). The core values of the Sharia economic system are tauhid (belief in God), justice, and trustworthiness.

In the context of fiscal policy, monotheism means that tax collection and management must be in line with divine values: free from injustice, manipulation, and discrimination (Chapra, 2019). Justice demands that every tax policy take into account the economic capacity of taxpayers (the principle of istitha'ah) and not impose an undue burden on the vulnerable (Karim et al., 2021).

Therefore, a Sharia-based tax system should not solely pursue administrative compliance but also promote moral awareness. This integration of justice values can also be applied to the tax rate system. Consumption-based taxes, such as VAT, should have compensation mechanisms or cross-subsidies for the poor. For example, basic necessities should be exempt from VAT or subject to lower rates.

This has been discussed in various fiscal policy forums, but its implementation remains limited. Sharia values also recognize two forms of financial obligations for Muslims: zakat and taxes. Zakat is an act of worship, while taxes are a state obligation. In an ideal Islamic fiscal system, the two do not exist separately, but rather complement each other.

Therefore, integrating zakat into the tax system can broaden the basis of fiscal justice and increase Muslim participation in national development (Al-Qaradawi et al., 2019). Therefore, Indonesia's current fiscal system does not fully accommodate the recognition of zakat as a tax deduction nationally.

In fact, several regional regulations, such as in Aceh and several other provinces, have implemented this integrative model with quite good results (Arifin et al., 2022). If this system is widely implemented, Muslims will not be burdened twice by fiscal obligations, while the state will simultaneously reap dual benefits: fiscal revenue and social empowerment. Integrating Sharia values also requires synergy between the fiscal authority (the Directorate General of Taxes) and Sharia financial institutions such as BAZNAS, LAZ, and the National Sharia Council.

In practice, these institutions can assist in collecting Sharia-compliant social funds, providing education to Muslim taxpayers, and partnering in awareness-based compliance campaigns. Sharia values govern not only who is obligated to pay but also how taxes are collected and spent. In Islam, tax collection accompanied by pressure, intimidation, or legal ambiguity constitutes a prohibited form of injustice (Al-Ghazali, 2018).

Therefore, the integration of sharia values requires transparency and accountability throughout the taxation process. Taxes must also be directed towards the public good (maslahah 'ammah), such as education, health, and poverty alleviation. If taxes are used solely to repay foreign debt or finance projects that do not directly benefit the people, this fundamentally contradicts the maqasid al sharia (Ashur, 2019).

To realize the integration of sharia values in national tax reform policies, several strategic steps can be taken:

1. National regulations that recognize zakat as a tax credit and not just a reduction in taxable income;
2. Sharia Fiscal Training for tax officials and stakeholders to understand the basis of Islamic law in fiscal policy;
3. Collaboration between the Directorate General of Taxes, DSN-MUI, and KNEKS to formulate fiscal instruments that are in line with maqashid al-syariah;
4. Digitalization of the Zakat and Tax System to increase the efficiency and integration of Muslim data in these two obligations.

IV. CONCLUSION AND SUGGESTIONS

A. Conclusion

Based on the research results and discussion, it can be concluded that tax reform in Indonesia has experienced significant progress in technical, legal, and digital aspects, primarily through the ratification of the 2021 Law on the Harmonization of Tax Regulations (UU HPP). This tax reform generally aims to broaden the tax base, increase taxpayer compliance, and adapt the tax system to the challenges of the modern economy, including digitalization and globalization.

However, when viewed from the perspective of Islamic economic law, this reform still leaves several critical notes. First, the policy of increasing Value Added Tax (VAT) is considered not to fully comply with the principle of distributive justice in Islam, as it tends to burden the lower middle class. Second, community involvement in the reform has not fully addressed spiritual and ethical aspects, which are essential components of the maqasid al-sharia. Third, the absence of a nationally integrated system that combines zakat and taxes within Indonesia's fiscal framework, forcing Muslims to fulfill two financial obligations separately. This weakens zakat's potential as a tool for wealth distribution and social justice.

Furthermore, the implementation of Sharia values in tax management remains limited to the normative realm and has not yet addressed strategic fiscal policy at the national level. Therefore, it can be concluded that Indonesian tax reform still requires refinement to align with Sharia values, including aspects of fairness, social benefit, transparency, and the spiritual involvement of Muslims in the country's fiscal system. Alignment between fiscal policy and Islamic economic law is crucial for creating an inclusive, equitable, and sustainable state financial system.

B. Suggestion

To ensure that tax reform in Indonesia aligns with the principles of Islamic economic law, the government needs to prioritize the principle of justice in all fiscal policies, particularly in the application of tariffs that do not burden low-income groups. The integration of Islamic values, such as the recognition of zakat as a tax deduction, should be strengthened within the national legal framework to support a more inclusive and equitable fiscal system.

Sharia-based tax socialization and education are also crucial to increase public literacy and awareness, particularly among MSMEs and Muslim taxpayers. Collaboration between fiscal and Islamic financial institutions, such as BAZNAS, DSN-MUI, and KNEKS, also needs to be intensified to ensure tax reform is not only legal within the state, but also ethical and in line with Islamic values.

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