



## THE THREAT OF TAX EVASION PRACTICES IN THE COAL MINING SECTOR IN INDONESIA ON ECONOMIC SECURITY

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### Abstract

This research examines tax evasion practices in Indonesia's coal mining sector, with a focus on identifying methods used and the role of state intelligence in addressing them. Using a qualitative approach, the study collected data through in-depth interviews with government officials, academics, and industry practitioners. The findings reveal six primary tax evasion practices: illegal mining, income and expense manipulation, document bribery, transaction manipulation, and document falsification. These practices significantly reduce state revenue and undermine the integrity of the coal mining sector. Additionally, the analysis emphasizes the importance of early detection and warning efforts by intelligence agencies to combat tax evasion. The study also underscores the need for improved collaboration among government entities and the utilization of information technology to integrate data and strengthen law enforcement.

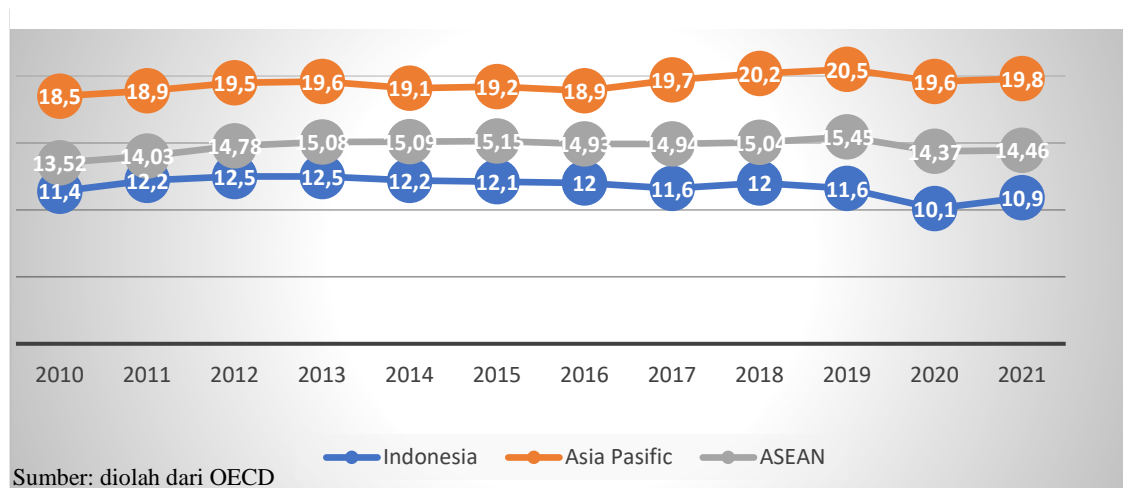
**Keywords:** Economic security, Intelligence, Inter-agency collaboration, Law enforcement, Tax evasion

### INTRODUCTION

Funding for various public service programs and infrastructure development is heavily relies on tax revenues. In Indonesia, tax revenues account for up to 82% of total state income, as mandated by Law Number 28 of 2022 concerning the 2023 State Revenue and Expenditure Budget (Pemerintah Republik Indonesia, 2022). However, despite this significant role, Indonesia faces challenges in optimizing its tax ratio.

Indonesia faces significant challenges in increasing its tax ratio, which has consistently

**Figure 1. Grafik Tax Ratio Indonesia -ASEAN- Asia Pasifik 2010-2021**



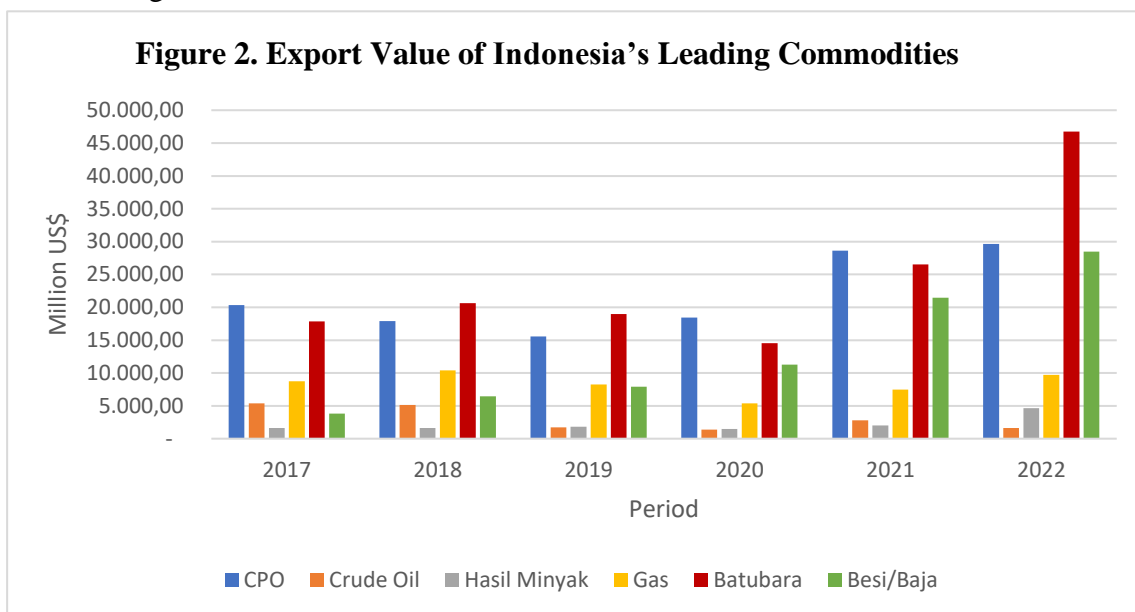
been below the average for Asia Pacific and ASEAN countries (OECD, 2023b). This suggests that there is untapped tax potential. The persistently low tax ratio indicates suboptimal tax collection, particularly from sectors with substantial economic potential, such as coal mining. Given its export volume (Badan Pusat Statistik, 2022a) and role as a major global energy source (BP, 2022), the coal sector should be a major contributor to state tax revenues.

The considerable coal resources in Indonesia place the country in a strategic global position due to coal's importance as an energy resource (Kementerian ESDM, 2021). With



relatively affordable prices compared to other fossil fuel, coal is a popular choice for countries with limited other energy sources (WCA, 2018). Consequently, Indonesia plays a significant role as the second-largest coal exporter after Australia, controlling 26% of the global market (BP, 2022). Data from BPS confirms a continuous increase in the value of Indonesian coal exports over the years (Badan Pusat Statistik, 2022b).

Despite the rising value of coal exports, the corresponding increase in tax revenues from the coal sector has been disproportionate, leading to a growing gap between coal production and the taxes collected by the government. Data processed from the Ministry of Energy and Mineral Resources' MODI and the Ministry of Finance shows that, by comparing total coal production with total tax revenue in the coal sector each year, a graph depicting the tax ratio for the coal mining sector can be obtained as follows.



Source: processed from BPS

The decreasing tax ratio year after year can be attributed to several factors, one of which is tax evasion by business entities. Tax evasion involves using illegal methods to avoid paying taxes and can lead to criminal charges (IRS, n.d.). It is part of underground economic involving not only involve domestic actors but also transnational multinational companies (IRS, n.d.; OECD, 2023a) (Blackburn et al., 2012). The OECD even categorizes tax evasion as an economic crime that threatens a country's strategic, political, and economic interests (OECD, 2020).

Previous research highlights the high risk of tax evasion within the coal mining sector. According to (Satyadini et al., 2019), The mining sector and financial sectors are particularly prone to tax evasion. Supporting this, Prakarsa's research indicates that the largest potential tax revenue loss stems from coal commodities, amounting to USD 5.32 billion from 1989 to 2017 (Ningrum et al., 2019) and USD 5.3 billion, equivalent of IDR 70.3 trillion from 2012 to 2021 with a total embezzlement reaching USD 135.5 billion. (Deco et al., 2022). Furthermore, the same research estimates that Indonesia lost USD 2.96 billion in PNB from coal and copper royalties during the same period representing around 4% of the value of coal and copper exports (Ningrum et al., 2019). This figure is derived from calculations of illicit financial flows (IFFs) closely associated with illicit tax evasion activities, money laundering, and other underground economy activities. Criminal activities such as *tax evasion* are dynamic, quickly adapting to exploit new opportunities for financial gain, often through legislative loopholes. In their efforts



to carry out *tax evasion*, coal mining companies use various methods to deceive the state. Coal mining companies employ various methods to deceive the state, concealing actual transactions to make it difficult for authorities to gather evidence of tax crimes. A recent example is the case of a former police officer suspected of engaging in illegal mining practices in East Kalimantan. (POLRI, 2022). To uncover the deceptions carried out by these entrepreneurs, an intelligence perspective is crucial. However, no researcher has yet examined the economic crime modes in the coal mining sector from this angle.

Given this background, this paper will address two research questions: 1) How are the tax evasion practices in the coal mining sector in Indonesia? and 2) What role does state intelligence play in combating the threat of tax evasion in the coal mining sector in Indonesia? The goal is to analyze the threat of tax evasion in the coal mining sector and the role of intelligence in addressing this issue.

This research aims to expose tax evasion practices in the coal mining sector that threaten Indonesia's economic security. Using a qualitative approach, the study seeks to understand how these practices occur, the methods employed, and the role of state intelligence in overcoming these challenges. Focusing on economic security underscores the importance of understanding the implications of tax evasion not only from a state finance perspective but also from the perspectives of social stability and justice.

## **LITERATURE REVIEW**

### **Threat Theory**

According to Irawan (Sukarno (2011), threats are defined as anything with the potential to disrupt, hinder or damage national interests. Threats can be internal or external, real or potential, military or non-military, and conventional or unconventional, such as terrorism, separatism, radicalism, drugs, cyber-attacks, and more. Any threat, whether from within or outside the country, must be anticipated by all components of the nation to maintain the integrity of the Republic of Indonesia and protect national interests (Yulivan, 2021a).

Threats can be categorized into three main criteria: (1) Source of Threat (identifying who or what is causing the threat); (2) Form of Threat (how the threat arises or is carried out); and (3) Target of Threat (the goal or object that is the target of the threat) (Sukarno, 2011). Using this framework, this research will focus on threats from business actors, both domestic and international, in the form of economic threats, specifically targeting national economic security. To effectively address a threat, it is crucial to determine its level based on its characteristics to ensure that the response is accurate and proportional.

### **Tax Evasion Concept**

Tax evasion, as defined by the OECD in its publication *International Tax Avoidance and Evasion* (OECD, 1987), involves illegal means or violating applicable laws to avoid paying taxes, such as not reporting taxes to the government, reporting incorrect taxes, misreporting income, issuing false invoices. Tax evasion is a criminal act subject to administrative and criminal sanctions, differing from tax avoidance, which uses legal methods to minimize tax liability but still undermines state revenue and taxation objectives.

Tax Evasion poses a significant threat to a country's economy. Research by Msimang Mncwango & Obed Richmond, (2022), found that tax evasion exacerbates wealth inequality and weakens purchasing power. It significantly reduces government revenues, affecting public spending levels and disrupting investment. A study by Davis, Cebula and Boylan (2021) analyzed the empirical impact of corporate tax evasion on GDP growth in Sweden. concluding that corporate tax evasion substantially negatively influences GDP growth (Davis et al., 2021).



### **Intelligence Theory**

According to Hank Pruckun, Intelligence operates in a context of secrecy and can be defined as process, knowledge, and organization. In his book *Scientific methods of inquiry for Intelligence Analysis* (Prunckun, 2015), he describes intelligence as a systematic and well-organized series of activities aimed at collecting, processing, analyzing, and disseminating information to support decision-making in contexts such as national security, law enforcement, and business.

Intelligence as "knowledge" refers to the result of the intelligence process, providing insight and understanding to reduce uncertainty for decision-makers. Intelligence also involves the capability of an organization to foresee negative (threats) or positive (opportunities) changes, known as Early Warning and Opportunity Systems (EWOS) (Yulivan, 2021b).

Intelligence is classified into five main categories based on the typology of the environment and organization (Prunckun, 2015): national security intelligence, military intelligence, law enforcement intelligence, business intelligence, and private intelligence. National security Intelligence is the most appropriate typology category for this research, considering the economic security threats to Indonesia.

### **Economic Security**

Economic security is a crucial aspect of national security, particularly in the globalization era where national borders are increasingly irrelevant (Ronis, 2011). The global order's changes have introduced non-conventional threats alongside conventional ones, shifting the security paradigm from state-centric to human security dimensions. This view aligns with Buzan's explanation, which expands the concept of security beyond the military to include political, social, environmental, and economic aspects (Buzan, 1991).

Ronis defines economic security as efforts to protect and maintain a country's economic stability, an integral part of a broader national security strategy with direct impacts on the country's stability, strength, and sovereignty. Economic stability, encompassing capital availability, healthy businesses, and profitability, is vital for job creation, tax revenues, and defense capabilities. Without a robust economic foundation, employment and the country's ability to sustain its military strength are at risk (Ronis, 2011).

## **METHODS**

This research employs a qualitative approach to understand the tax intelligence perspective on tax evasion practices. This approach allows researchers to gain in-depth insight and a comprehensive understanding of tax evasion methods carried out by coal mining companies.

The study utilizes both primary and secondary data sources. Primary data is collected directly from sources through semi-structured interviews with policymakers, academics, and practitioners. Information was gathered from several agencies and entities, such as the State Intelligence Agency (BIN), the Directorate General of Taxes, the Ministry of Energy and Mineral Resources, and major coal companies. Secondary data is obtained through literature reviews of relevant journals, reports, and articles from open sources.

The researchers employed intelligence analysis and ASOCA (Ability, Strength, Opportunity, Culture, Agility) analysis to analyze the data. Intelligence analysis is used to uncover various phenomena identified during the data collection process through in-depth interviews. To provide solutions, the ASOCA method is applied to describe the position of the coal mining sector relative to the government. This approach allows the researchers to outline the role of intelligence in addressing the threat of tax evasion within Indonesia's coal mining sector.



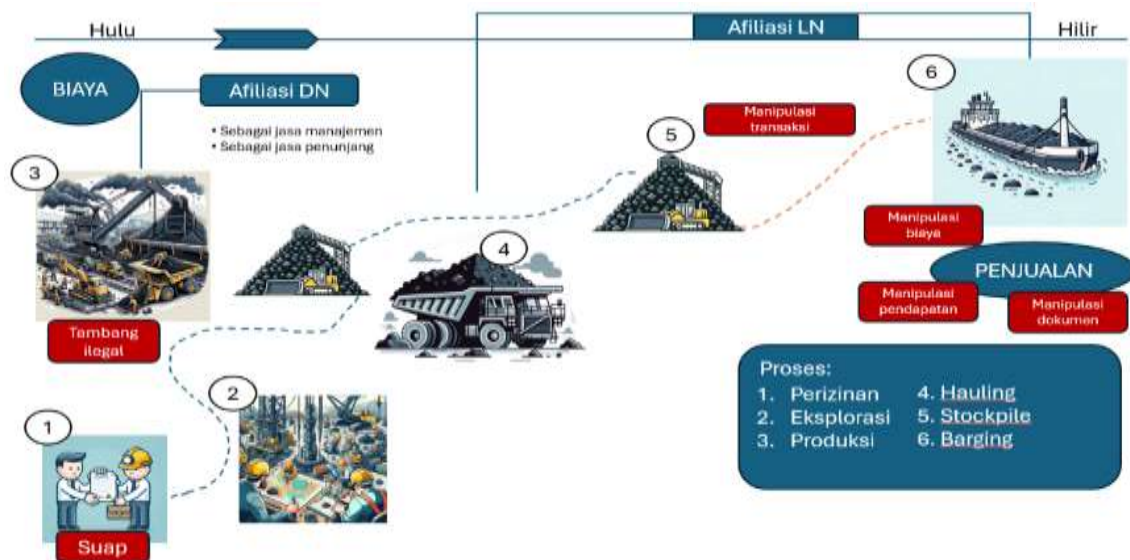
For data validation, the study uses triangulation validation techniques to ensure that data obtained from one source or method can be confirmed or corrected by data from another source or method. The triangulation techniques applied include data source triangulation and informant triangulation. This research was conducted in Jakarta from October 2023 to February 2024.

## RESULTS AND DISCUSSIONS

### Tax Evasion Practices in Coal Mining in Indonesia

Based on the processed data and information, tax evasion practices in the coal mining sector can be executed through various modes of non-compliance by coal mining entrepreneurs. These practices can be categorized into six types: illegal mining, income manipulation, cost manipulation, document bribery and coordination costs, transaction manipulation, and document manipulation. These six practices are interrelated, and their implementation can be illustrated in the following chart depicting upstream and downstream coal mining activities.

**Figure 3. Tax Evasion Practices in the Coal Sector**



Source: processed by the Author with Dall-e

### Coordination Fees and Document Bribery

The coal mining sector is known for its complexity, involving a range of processes from the extraction and processing of raw materials to shipping, regulatory compliance, licensing, and social and environmental responsibilities. This complexity makes coal mining one of the hard-to-tax sectors. The hard-to-tax sector refers to a group of taxpayers whose actual income is difficult for the tax authorities to ascertain (Alm et al., 2004). These sectors are challenging for authorities to monitor in terms of both reporting and tax payment systems and are often akin to sectors in the shadow economy (Alm et al., 2004). One of the dark aspects of the coal mining sector that complicates tax detection is the presence of coordination fees or funds.

his research highlights the presence of coordination costs within the coal mining business cycle. According to the Ministry of Environment and Forestry's website, these coordination costs can amount to tens or hundreds of millions (KemenLHK, 2018). Coordination costs are typically paid by mining business actors to entities that can expedite and secure their operations. This security includes not only physical protection by personnel such as law enforcement officers, NGOs, and local enforcers but also document security, ensuring that illegal coal is legalized for export.

The necessary documents for coal mining entrepreneurs are issued by government officials from various agencies, starting with licensing documents. Throughout the operational



process, additional documents from the government are required, culminating in several key documents needed to ship coal from the jetty. According to practitioner informants, for coal to leave the delivery point, documents related to royalty repayment (e-PNBP), Goods Export Notification (PEB), Bill of Lading, and Certificate of Readiness, submitted to the Harbormaster's Office and Port Authority, are required. The legal status of coal is thus determined by these documents upon shipment. Consequently, coal from illegal mining can go undetected if these government documents are issued for it. Bribes are suspected to be involved in obtaining these documents for illegal goods. This was evidenced in a case involving the former Regent of Tanah Bumbu, South Kalimantan, MM, who was allegedly bribed to transfer the Production Operation IUP from PT BKPL to PT PCN (KPK, 2022). A similar case involved IT, a member of the People's Representative Council, who was accused of falsifying documents related to coal mining permits (Nufus, 2023).

Unfortunately, coordination and bribery costs for document issuance cannot be recognized in fiscal bookkeeping for income tax calculation purposes as regulated in Article 5 PP15/2022. Therefore, these costs are often recorded in a manner that allows them to be recognized as deductible expenses, enabling entrepreneurs to reduce their taxable income by submitting inaccurate records. This practice includes intentionally submitting incorrect tax returns (SPT) and/or information and deliberately presenting fake or falsified books, records, or other documents as genuine, as outlined in Article 39 of the KUP.

### **Illegal Mining**

Based on research findings, illegal aspects in coal mining consist of two types: illegal goods and illegal administration. Illegal coal is obtained through mining operations conducted without a proper mining permit (IUP), by exceeding the allocated quota under a valid IUP, or by using another party's IUP without official government transfer. Illegal administration occurs when these illicit goods are legalized through fraudulent documentation, often referred to as "forged documents," issued by the government.

A literature review revealed that in trial decision Number 253 K/PID.SUS/2015, the Director of CV.SB was found guilty of operating a mining business without an authorized IUP. The director employed workers to mine within the permit area of PT.STI, a practice commonly known as corridor mining, where illegal operations occur in or near the area of an official IUP holder.

The research indicates that illegal coal mining is a common method of tax evasion. By operating illegally, perpetrators avoid detection and regulation by tax authorities, who can only take administrative action against officially registered businesses. This allows illegal operators to evade government obligations while being protected by those receiving coordination funds.

Illegal coal mining not only deprives the state of tax revenues, but also damages natural resources and the environment. As coal is a non-renewable resource, illegal mining depletes it without proper authorization from the state, the rightful owner. Consequently, the results of these illegal activities are often not reported, accelerating the depletion of Indonesia's coal reserves and undermining long-term energy security.

### **Transaction Manipulation**

The coal mining sector predominantly focuses on export sales, with an average of around 74% of total sales directed abroad from 2018 to 2023. The remaining 26% consists of domestic coal sales. This distribution complies with government regulations that mandate coal mining companies to allocate 25% of their production to the domestic market to meet local coal demands (Domestic Market Obligation) for electricity and industrial fuel supply (Kepmen ESDM 399.K/MB.01/ MEM.B/2023, 2023). The high coal export sales are related to the form of business in this sector.



The high percentage of coal export sales is linked to the nature of businesses within this sector. Typically, coal mining companies are large multinational corporations (MNCs) with affiliated companies in various jurisdictions and domestic subsidiaries. Such complex company structures can facilitate income embezzlement through transaction manipulation. A common practice in this sector is transfer pricing, where transactions between affiliated companies are not conducted in accordance with government regulations.

According to Minister of Finance Regulation Number 172 of 2023 concerning the Application of the Principles of Fairness and Business Standards in Transactions Affected by Special Relationships, transfer pricing is defined as:

“price determination in Transactions Affected by a Special Relationship, which includes Affiliate Transactions and transactions carried out between parties who do not have a special relationship but the Affiliate Party of one or both of the parties to the transaction determines the transaction counterparty and the transaction price. “

According to academic sources, transfer pricing itself does not violate tax regulations as long as the prices set adhere to the arm's length principle. However, when transfer pricing is used intentionally to hide income or shift profits to countries with lower tax rates to evade taxes owed in Indonesia, it becomes a tax crime, violating Article 39 of the General Tax Provisions Law (UU KUP) (Hidayat, 2019). This view is supported by informants from the National Intelligence Agency and the Directorate General of Taxes, who indicate that transfer pricing can be a tool for taxpayer to manipulate transactions and reduce their tax liabilities. Based on this data and information, researchers conclude that tax evasion occurs when perpetrators intentionally misrepresent actual income to avoid detection by Indonesian tax authorities by not complying with government-set transfer pricing regulations.

An example of transfer pricing practices in the coal mining sector is found in court decision number 884/B/PK/PJK/2014, which illustrates how the multinational company PT. LHI manipulated coal sales prices to its affiliated company in Thailand. In this case, PT. LHI charged a lower price to LRP Comp. Ltd compared to independent transactions with Glencore International AG and Unique Mining Services Public Company Ltd. PT. LHI argued that their sales price was based on the prevailing market price at the time the sales contract was signed.

It was further revealed that PT. LHI had a special relationship with LRP Company Limited, which owned 55% of the shares and shared management elements, resulting in a dominant influence on transaction prices. Historical sales data showed that high-quality coal was consistently sold at different prices between LRP Comp. Ltd and other companies. Consequently, the Directorate General of Taxes used the Comparable Uncontrolled Price (CUP) method to test the fairness of prices in transfer pricing transactions. This method compares prices with those charged to independent companies dealing in the same type of goods, product specifications, and sales conditions, making it a suitable approach for evaluating the fairness of transfer pricing practices.

### **Cost Manipulation**

The practice of cost manipulation is intricately linked to tax evasion in the coal mining sector. Costs that cannot be recognized as deductible expenses under tax laws, such as coordination costs and bribes to public officials, compel entrepreneurs to manage cost accounts creatively in their financial records. This accounting manipulation aims to maximize reported costs, thereby minimizing the declared profits and reducing the tax liability. Interviews with informants confirm that one of the prevalent tax evasion strategies among companies in this sector is inflating costs to decrease the profits reported to tax authorities. Other informants highlighted the manipulation of bookkeeping and financial records as a common method for tax evasion.



Various techniques are employed to inflate costs improperly. One such technique involves presenting fake bank statements to record non-existent transactions. Additionally, companies may maintain double bookkeeping, separating records for tax and commercial purposes. However, there should only be one set of financial records, which must be submitted to the tax authorities.

A literature review revealed instances of management and agency fees being charged without meeting the principles of fairness and business practice. These fees were often reported without clear substantiation, not included in the current year's Corporate Annual Tax Return and lacking adequate transfer pricing documentation. Court decision number 1118/B/PK/PJK/2017, involving PT JMB, exemplifies such practices. PT JMB charged fees for services purportedly provided by PT SE, despite PT SE having no employees, no actual office activities, and a business classification unrelated to management services. Moreover, PT JMB's transactions with affiliated companies were unsupported by proper transfer pricing documentation.

This research concludes that cost manipulation is a significant tax evasion practice in the coal mining sector, involving various techniques to manage cost accounts in company bookkeeping.

### **Income Manipulation**

Cost manipulation and transaction manipulation ultimately lead to revenue manipulation. Based on interviews, tax evasion is often conducted by managing income accounts to record lower-than-actual income. Business actors hide part of their sales value from the tax authorities through methods not permitted by regulations. To conceal sales values, many multinational coal companies use shell companies abroad to retain their real profits. Informants suggest that mining businesses might use coal trading services in tax haven countries to maximize their profits. The selling price from companies in Indonesia is minimized and then sold to companies in tax haven countries, such as Singapore. However, the coal is shipped directly from Indonesia to the actual buyer's country. The coal is then resold by companies in Singapore at much higher prices to the final buyer. This scheme allows Indonesian companies to report lower income, while the true operating profit includes both the Indonesian selling price and the selling price of the shell company in Singapore.

This practice is exemplified in a court case involving PT. LHI, which used its affiliated company in Thailand as an intermediary for buying and selling coal. Additionally, documents from the Indian Department of Revenue Intelligence (DRI) revealed that Indian coal entrepreneurs manipulated purchase prices from affiliated coal companies in Indonesia. The method involved Indonesian companies selling coal to affiliated companies in Singapore at low prices, while the coal was recorded as being unloaded in India. The invoice price from the intermediary companies in Singapore was significantly higher than the price charged by the companies in Indonesia. This technique is part of misinvoicing, which includes overinvoicing and underinvoicing. For Indian tax authorities, this practice is overinvoicing, where the importer's recognized price is much higher than the actual price. DRI's analysis suggests that overinvoicing channels funds out of India to be deposited in Singapore. Conversely, underinvoicing records the export selling price as lower than it should be, reducing income in the counterparty country and minimizing taxes.

From this data, researchers conclude that most tax evasion practices result in the manipulation of income accounts in company bookkeeping. The techniques used range from simple methods like not recording sales or providing fake bank statements to complex strategies involving shell companies to hide true income. The larger the company, the more complicated the structure and transactions, making it difficult for government auditors to verify the accuracy of the data provided by companies.



### **Document Manipulation**

Document manipulation is a key practice in tax evasion, complementing other fraudulent methods. According to informants, business actors often manipulate documents to conceal income. These actors allegedly obtain original documents officially issued by government authorities, but not based on actual conditions or transactions.

Among miners, these documents are commonly known as forged documents or "dokumen terbang". Forged documents are used to "clean" coal obtained through illegal mining activities, involving the use of legal shipping documents to package and distribute illegally mined coal.

Additionally, informants suggest that the buying and selling of fictitious tax invoices is another method used by business actors to manipulate documents and reduce their tax liabilities. However, the use of fictitious tax invoices has reportedly decreased due to the advanced technology employed by the Directorate General of Taxes in issuing tax invoices.

Document manipulation extends beyond official government documents. It can also involve company management fabricating evidence of cost expenditures to fit a prearranged scenario, thereby maximizing deductible costs. These fabricated expenditure proofs accommodate costs that are not legally deductible in tax calculations based on statutory regulations.

Thus, document manipulation is a crucial element in tax evasion, as it allows perpetrators to blur the line between legal and illegal recognition of transactions. The ability to present an official document is often decisive in their efforts to evade the taxes they owe.

### **The Role of Intelligence**

From the analysis of the data and information collected, the role of intelligence in addressing tax evasion in the coal mining sector includes several key functions: covert information gathering, collaboration, analyzing Information, Data, Report, and Lawsuit (IDL) for preliminary investigation (*bukper*), and early detection and early warning.

#### **Covert Information Gathering**

In efforts to combat tax evasion, particularly in the coal mining sector, the role of intelligence is crucial. Given the sector's complexity and its classification as a hard-to-tax industry, intelligence is essential for collecting information that cannot be formally obtained by government officials. Utilizing data and information from various institutions, intelligence can uncover information hidden by business actors. This involves identifying and monitoring suspicious activities based on previously detected anomalies. The covert gathering of information is part of the implementation of Article 35A of the KUP Law, enabling intelligence to play a significant role in exposing and preventing illegal practices and safeguarding state resources.

This perspective aligns with informant insights, which emphasize the necessity of intelligence providing tax officials with detailed information about the true stakeholders behind companies, indirectly affiliated parties, and potential risks associated with enforcement actions. Additionally, other informants noted that intelligence identifies embezzlement by initially spotting anomalous phenomena from documents obtained through other agencies or discreet observations. Academic informants highlighted the importance of intelligence in tracking information unavailable through overt action. Intelligence operations begin with initial data and then validate and delve deeper using specialized techniques. Thus, the information exchange system established by the DJP, facilitating inter-entity information sharing, is vital.

Based on these findings, the researcher concludes that intelligence's role in tackling tax evasion involves discreet information gathering consistent with its covert nature. Methods used include data analysis and predictive modeling, utilizing HUMINT and undercover agents, physical surveillance, financial record analysis, and information exchange with other entities.



Intelligence can also profile the true beneficial owners of companies, often not listed in the organizational structure, and identify parties protecting the company's interests. Through these measures, intelligence protects tax officials who interact directly with coal mining entrepreneurs while remaining unseen.

### **Collaboration**

In addressing tax evasion in the coal sector, the role of intelligence extends beyond collecting and analyzing information to include close collaboration with various other entities. This collaboration is vital to translating intelligence efforts into effective legal action and efficient tax law enforcement. Intelligence cooperation can be divided into two forms: cooperation between international intelligence agencies and cooperation between Indonesian government agencies.

Given the global nature of the coal industry, intelligence collaboration with foreign agents and institutions is essential. This international cooperation is crucial for tackling tax evasion involving multinational companies or cross-border transactions. One key international collaboration effort is participation in initiatives such as Base Erosion and Profit Shifting (BEPS) initiated by the Organization for Economic Co-operation and Development (OECD) and the G20. This involves exchanging information between countries, increasing transparency, and implementing international standards to prevent tax avoidance by multinational companies, including those in the coal sector.

Through BEPS, the OECD has established an inclusive framework that allows countries to share information on the activities of multinational companies via Country-by-Country Reporting (CbCR). CbCR requires multinational companies to report revenue, profits, taxes paid, and other economic indicators for each country in which they operate. This initiative enables countries to identify companies that shift profits to low-tax jurisdictions.

Additionally, many countries participate in the Automatic Exchange of Information (AEOI), which involves the automatic sharing of information about financial accounts and their owners. This collaboration significantly aids intelligence in identifying individuals or companies with unreported assets or income in other jurisdictions.

Another example is the cooperation between Financial Intelligence Units (FIUs) from various countries through networks such as the Egmont Group. FIUs exchange information about suspicious transactions that may be related to tax evasion, money laundering, or other illegal activities. This information exchange is crucial, especially for cases involving coal companies engaged in cross-border activities that may be involved in tax evasion or complex financial crimes.

Domestically, cooperation between Indonesian government agencies can be facilitated through intelligence meeting forums such as *Kominpus* and *Kominda*, or via an integrated information exchange system. These forums enable the exchange of information that cannot be obtained by any single agency due to limited authority. An integrated information exchange system is necessary to ensure real-time data availability, allowing intelligence to work quickly and accurately. Inter-agency cooperation can also assist in policy formulation and early detection of tax evasion in coal companies.

In conclusion, the researcher believes that intelligence collaboration is essential, given that the core business of intelligence is information. The more comprehensive the information obtained, the better the intelligence analysis will be in determining steps to prevent or address crimes in the tax sector.

### **Analyzing Information, Data, Report, and Lawsuit (IDL) For Preliminary Investigation (Bukper)**

Intelligence plays a critical role in following up on IDLP to develop and analyze initial evidence of tax-related criminal activities. In efforts to enforce tax law, intelligence is vital,



particularly in addressing the complexity and sophistication of various tax evasion schemes. Article 43A of the Law on General Provisions and Tax Procedures (UU KUP) underscores the importance of intelligence activities in the Preliminary Investigation. This is further reinforced by Minister of Finance Regulation Number 177/PMK.03/2022, which outlines procedures for Preliminary Investigation of Tax Crime.

In fulfilling this role, intelligence is tasked with collecting data from diverse sources, including financial data, transaction records, communications between companies, reports from financial institutions, and information from public and private databases. Once collected, intelligence analyzes the data to identify patterns, anomalies, or suspicious activities. This process often utilizes advanced analytical technology and data mining techniques. Intelligence examines evidence to understand the relationships between different entities, fund flows, and unusual transactions that may indicate tax evasion or other illegal activities.

Developing initial evidence frequently requires collaboration between various agencies and institutions. For instance, DGT intelligence could collaborate with State Intelligence Agency to monitor illegal coal mining activities. This inter-agency cooperation is crucial for a comprehensive approach to identifying and addressing tax evasion in complex cases.

### **Early Detection and Early Warning**

According to the State Intelligence Law, the primary role of intelligence are early detection and early warning by undertaking efforts, activities, and actions to prevent, deter, and address any threats that may jeopardize national interests and security. In the context of tax evasion in the coal mining sector, potential threats include the loss of state revenue and the depletion of Indonesia's irreplaceable natural resources without significant benefits to the state. Therefore, intelligence is crucial for detecting illegal practices that could threaten the national economy. Early detection can be conducted by intelligence analysts or HUMINT Operations team.

Early detection by analysts involves monitoring compliance risk indicators in the coal mining sector using big data analytics, enabling intelligence analysts to detect early signs of tax evasion across various business classifications. Analysts can use documents obtained through information exchange with different entities, alongside internal data from the Ministry of Finance, to identify suspected tax evasion using predictive analysis. These analyst reports are then passed to HUMINT Operations team for further investigation.

In early detection, agents employ various techniques. Geospatial analysis is one such technique that intelligence can use to monitor mining activities. According to informants, intelligence can leverage geospatial technology to gather geographic location data and spatial attributes of objects or phenomena. Integrating geospatial data with analytical reports allows intelligence to develop a comprehensive and detailed understanding of conditions on the ground.

Overall, intelligence serves as the frontline defence in detecting and addressing illegal practices that threaten the country's economy, ensuring early intervention and protection of state resources.

### **CONCLUSIONS**

This study have identified that the coal mining sector in Indonesia is facing a significant threat from tax evasion practices. These practices involve various methods, including illegal mining, manipulation of income, costs, and documents, and the misuse of official government documents to legalize illegal coal through bribery. The primary driving force behind these practices is financial motivation, as the illicit price of coal is often much higher than the official price, offering substantial profit margins for illegal miners.



The role of intelligence in addressing this challenge is crucial. Intelligence is tasked with collecting information covertly, collaborating with other agencies to gather data related to tax evasion, following up on IDLP for preliminary investigation, and conducting early detection and early warning. Through data collection, analysis, and collaboration with various agencies, both domestically and internationally, intelligence can help identify and combat tax evasion practices.

Addressing tax evasion requires a comprehensive and coordinated approach. Enhanced collaboration between government agencies, both within Indonesia and with international institutions, is necessary to ensure effective data integration and analysis. Tax attachés in major coal-importing countries can provide valuable intelligence support in tracking and monitoring coal trading activities. Additionally, the use of data analytics technology and data mining techniques can aid in identifying patterns, anomalies, and suspicious activities related to tax evasion.

Overall, a robust intelligence framework, combined with strong inter-agency and international cooperation, is essential for effectively tackling tax evasion in Indonesia's coal mining sector.

### **Suggestions**

**Strengthening Coordination and Data Integration Among Government Institutions.** Enhancing coordination between government institutions such as the Directorate General of Taxes (DJP), the Ministry of Energy and Mineral Resources, the Indonesian National Police (POLRI), the State Intelligence Agency (BIN), and other relevant agencies is essential for reinforcing the law enforcement system and overseeing the coal mining sector. Improving data and information integration among these agencies is crucial to effectively detect and address tax evasion practices. With integrated data, actors involved in coal mining tax evasion will have fewer opportunities to manipulate and misrepresent information shared with the government, closing a significant loophole for illicit activities.

**Optimizing the Use of Technology.** The government is encouraged to leverage information and communication technology for data collection and intelligence analysis. Utilizing big data, AI, and other analytical tools can help identify tax evasion patterns and predict potential future risks. In this context, collaboration is needed between Deputy 5 BIN, the Directorate of Data Center and Information Technology for Energy and Mineral Resources of the Ministry of Energy and Mineral Resources, and the Directorate General of Taxes of the Ministry of Finance. This cooperation aims to develop a consolidated technological system for monitoring the manipulation of permit documents and transaction data, ensuring that all three entities can access this information in real-time.

**Enhanced Supervision by the Directorate General of Taxes.** The Directorate of Compliance and Revenue Potential at the DGT is tasked with mapping and monitoring tax evasion methods used in the coal mining sector. This effort is bolstered by the DGT Inspection and Collection Directorate, which conducts audits of coal mining companies over the past three years to investigate potential manipulation of company data and financial reports.

If evidence of special criminal activities is found during these audits, the case will be escalated to an investigation by the DGT's Civil Servant Investigators (PPNS). For general criminal allegations, the case will be referred to the Ministry of Energy and Mineral Resources, POLRI, the Attorney General's Office, and BIN for further investigation. These efforts are coordinated by the Coordinating Minister for Political, Legal, and Security Affairs to ensure thorough and unified action.

**Formation of Tax Attache in Coal Importing Countries.** To combat tax evasion efforts by perpetrators operating in other countries, the Ministry of Foreign Affairs and the Ministry of Finance should consider establishing tax attaché positions in embassies located in



major coal importing countries and other high-risk regions. These tax attachés would play a crucial role in gathering information and conducting tax diplomacy to prevent cross-border tax evasion practices. Their responsibilities would extend beyond the coal mining sector to include monitoring and addressing tax evasion across various business sectors.

**Encouraging International Cooperation.** The government should enhance international cooperation by exchanging tax information, particularly with countries that are primary destinations for Indonesian coal exports. Utilizing global platforms and initiatives such as the Automatic Exchange of Information (AEOI) can significantly aid in combating tax evasion and tax avoidance. Strengthened international collaboration will ensure more comprehensive and effective measures against tax-related crimes.

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