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ANALYSIS OF CASCADING EFFECT ON DIFFERENT TAX PERIOD INVOICE CREDITING POLICY

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ABSTRACT

Value Added Tax (VAT) is a development of Sales Tax that has a non-cumulative nature, so it avoids the occurrence of tax on tax or cascading effect. Regarding the provisions on input tax crediting as regulated in Article 9 paragraph (2) and paragraph (9) of the VAT Law, input tax credit can be made in the same Tax Period. In practice, there are often conditions that eventually cause Input Tax crediting to be carried out in different Tax Periods. In 2022, the Directorate General of Taxes (DGT) issued a policy on different tax period invoice credits (FP) which is regulated in Regulation of the Director General of Taxes Number PER-03/PJ/2022. This policy regulates the time limit for uploading, which previously did not exist. This upload time limit tends to have a cascading effect. This study aims to further analyze the cascading effect caused by the implementation of the different tax period invoice credit policy as regulated in PER-03/PJ/2022. This study uses a qualitative research method with data analysis techniques conducted through literature studies. The results of this study show that the different tax period invoice credit policy, especially that regulated in Article 18 PER-03/PJ/2022, tends to cause a cascading effect where there are input invoices that cannot be credited.

KEYWORDS *Cascading Effect, Value Added Tax, Invoice, Input Tax, Output Tax*

INTRODUCTION

Value Added Tax (VAT) is a form of taxation on general consumption that is levied indirectly. VAT is considered a modern form of taxation because it is relatively new and represents a fiscal innovation. Before the implementation of VAT, consumption taxes were only imposed on certain goods, such as excise duties and sales taxes. However, the imposition of these taxes eventually led to distortions due to the cascading effect, where the tax imposed becomes an inherent part of the price of goods, which then becomes the basis for taxation at the next level.

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Therefore, there has been a development of the concept through the crediting of Input Tax (IT) against Output Tax (OT).

VAT is a development of Sales Tax. This is illustrated by its advantage of being non-cumulative, thus avoiding the occurrence of tax on tax or cascading effect. The potential cascading effect is eliminated in VAT because of the tax credit method applied in its calculation, so tax is only levied on the value added. Regarding tax credits, it is stated in Article 9 paragraphs (2) and (9) of the VAT Law that tax credit can be done in the same Tax Period. Furthermore, the period for crediting can be up to three Tax Periods after the end of the Tax Invoice is made. However, the situation in the field sometimes differs. There are conditions that ultimately lead to the crediting of IT being done in different Tax Periods.

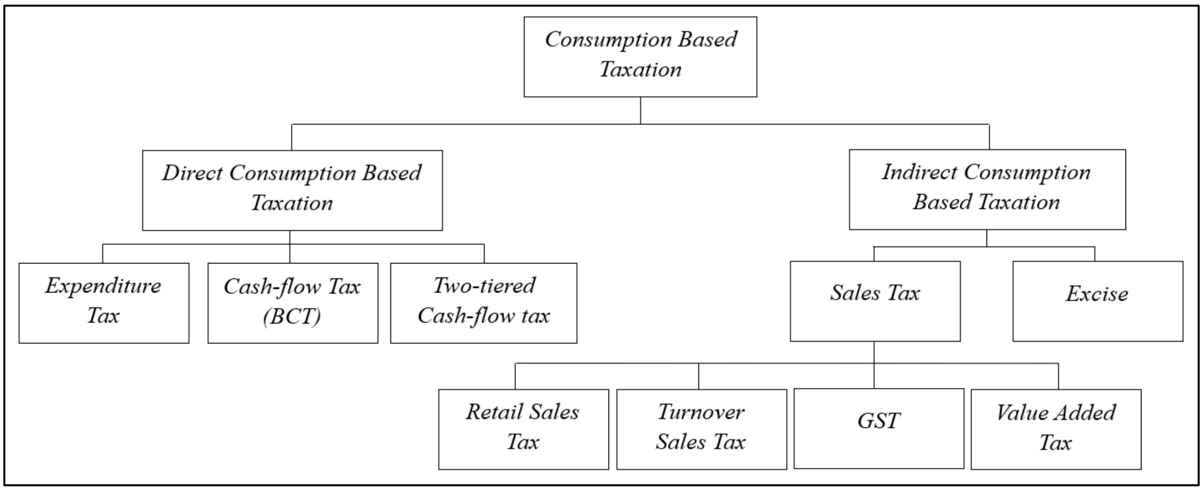
Furthermore, in line with the development of the times, the Directorate General of Taxes (DGT) also makes changes to adapt to current developments. One of them is through the modernization of electronic Tax Invoices (e-Tax Invoices) or often referred to as e-invoices. The aim is to minimize fictitious Tax Invoices that could potentially lead to loss of state revenue. In 2022, the DGT issued the latest regulation governing Tax Invoices through Directorate General of Taxes Regulation Number PER-03/PJ/2022. One aspect regulated in this regulation is the time limit for uploading e-invoices. The provision regarding the time limit for uploading potentially leads to the re-emergence of the cascading effect. This is because if the Tax Invoice is uploaded beyond the 15th of the following month, it will not be approved by the DGT and will be considered as a non-Tax Invoice. Therefore, for transactions occurring in this month, the Tax Invoice will be included in the following month. Based on this background, the author is interested in further analyzing the cascading effect resulting from the implementation of Directorate General of Taxes Regulation Number PER-03/PJ/2022.

Taxation Policy

Tax is a compulsory contribution to the state, levied by law, without direct compensation that can be traced back to specific state revenues, and used to finance expenditures related to state functions and to interpret the state's role in governing (R. Santoso Brotodihardjo, 1993). According to Mansury (1994), tax policy is the choice among various targets to be achieved within the framework of the tax system. Several aspects influence these choices, including the type of tax to be levied, taxpayers, tax objects, tax rates, and methods of tax payment. Once the targets are selected, tax policies to be adopted within the tax system will be formulated.

Tax policies should be easily understood and accepted by the public. One such policy concerns consumption taxation. Consumption-based taxation is considered one of the best alternative tax bases (Rosdiana et al., 2011). Additionally, Rossen in Rosdiana et al. (2011) also stated that consumption taxation is more aligned with the principle of ease of administration. In its implementation, the design of consumption taxes continues to evolve. This development can be observed through the taxonomy presented below.

Figure 1. Taxonomy of Consumption Taxes



Source: Rosdiana et al., 2011 (Adapted by the Author)

Value Added Tax

Rosdiana and Irianto (2012) explain that Value Added Tax (VAT) is a type of tax that is levied repeatedly (multistage levies) due to the value added at each stage of production chain. Value added refers to the profit generated by sellers at each stage of production. This is in line with the definition provided by Schenk and Oldman (2007), stating that VAT is a type of sales tax imposed progressively at each stage of production of goods and services.

Fundamentally, VAT is an extension of consumption tax because it is targeted at consumers using goods or services. According to OECD (2020), consumption taxes are classified into two types: general consumption taxes and specific consumption taxes. General consumption taxes include VAT, Sales Tax (ST), and other general taxes on goods and services. Meanwhile, specific consumption taxes include excise taxes, customs duties, and other specific taxes on goods and services.

In its calculation, VAT is derived from the subtraction of Input Tax (IT) from Output Tax (OT), which is the tax obtained from Taxable Goods (BKP) or Taxable Services (JKP) minus IT, which is the tax on the supply of BKP or JKP. When such supply occurs, it generates proof of collection known as a Tax Invoice (TI). Buyers or sellers can credit TIs as long as they contain the required information.

1. Legal Character of Value Added Tax

In the collection of taxes, it is advisable to first understand the nature or characteristics of the type of tax. Based on this, VAT also has its own characteristics. There are eight characteristics of VAT (Sukardji in Setyowati et al., 2020):

a. Indirect Tax: VAT is a type of tax where the tax burden can be shifted to others (backward or forward shifting) because it is an objective tax. In the context of indirect taxes, the tax burden is borne by consumers as users of goods or services.

b. Objective Tax: VAT is an objective tax levied on objects, regardless of the conditions of the subjects. The tax object arises when there is a condition, event, or matter related to property.
c. Multistage Levy: VAT is characterized by the application of tax at every stage of production and distribution, from the manufacturer to the retailer. VAT is repeatedly applied at each stage of production but does not result in double taxation because calculations are not accumulated.
d. Indirect Subtraction/Credit/Invoice Method: It is a calculation method involving the subtraction of OT from IT.
e. Non-cumulative: Although VAT is levied repeatedly, it does not result in double taxation. This is because tax credits are allowed for taxes already paid in previous stages. Therefore, the tax imposed is essentially on the value added at each stage of production.
f. Single Rate: The single rate applied in Indonesia aims for simplicity. The rate applied in Indonesia is 11%.
g. Domestic Consumption Tax: VAT is only imposed on domestic consumption. Therefore, the place where goods or services are consumed is crucial in determining VAT imposition.
h. Consumption Type VAT: VAT is an extension of consumption tax, so it is only imposed on consumption of goods or services.

2. Time of Supply for VAT

As a tax on a transaction, the time of supply for VAT is when the delivery occurs (David in Thuronyi, 1996). Determining when delivery occurs involves certain elements. The term "time of supply" in the context of VAT usually has a different definition from the general term. This can lead to differences in definitions among countries using VAT. However, generally, the "time of supply" refers to the time when the delivery of goods and services is taking place (Thornton & Kannaa, 2017). Therefore, the time of supply is crucial because it is associated with the responsibilities of entrepreneurs as VAT collectors. Although the determination of the time of supply varies from country to country, generally, there are three conditions that determine a supply (Tait, 1988): 1) when the sales invoice is issued, considered the most accurate method due to its documentation date; 2) when goods are made available to the buyer or services are provided to the buyer; or 3) when payment is made. The time of supply for VAT also prioritizes the earlier occurring event. Therefore, if a seller issues a sales invoice before delivering the goods sold, that condition is already considered a supply and is the time when VAT is due.

3. Time of Issuing Tax Invoices

A Tax Invoice is a documentary evidence created by a Taxable Entrepreneur (PKP) as a responsibility for the transactions they carry out. Documentary evidence is an essential element in VAT as a form of tax transparency to prevent tax evasion. It can be said that TI is an obligation that must be fulfilled by PKP. As evidence of a transaction, generally, TI must be issued at the time of delivery of goods or services. However, considering that the time of supply for VAT depends on the earlier occurring event, the time of issuing TI is also the same. Therefore, TI issuance can occur when payment is received but the delivery of goods or services has not yet occurred, when payments are received through installments if there are deliveries of goods or services made progressively, and at other times stipulated in the regulations of each country regarding the supply of goods or services.

4. Cascading Effect

One concept strongly avoided in VAT is the cascading effect (Kasim & Salsabila, 2022). The cascading effect arises from the imposition of tax at each stage of its production chain. This aligns with the explanation from DDTC News (2020), stating that the cascading effect refers to a collection system where taxes are imposed at previous stages and added to the Taxable Base (TB) for the next stage. In other words, in the cascading effect, taxes are considered as a unified part of the price of goods or services provided. This corresponds to what Kagan (2022) mentioned, that in the cascading effect, there is a combined effect where products with several production stages will be subject to increasing taxes, resulting in higher real sales taxes compared to the official sales tax rates.

The tax components, which are a unified whole, are then used as the basis for tax calculation at the next level. This scheme is usually applied by Sales Tax as part of consumption tax. However, the resulting effect has led many countries to change their consumption tax systems, shifting from Sales Tax to Value Added Tax. The change in the system is due to the fact that VAT imposition does not create a cascading effect. This is because VAT applies the Input Tax credit method to Output Tax. Thus, tax is imposed only on the value added at each stage of production and distribution. The following is an illustration of the cascading effect assuming a 10% VAT rate.

Table 1. Illustration of Cascading Effect

Business Lane	**Purchase**	**VAT**	**Purchase Price**	**Cost**	**Selling Price**	**National Revenue**
Raw materials	-	100	-	1.000	1.000	100
Manufacturer I	1.000	100	1.100	400	1.500	150
Manufacturer II	1.500	150	1.650	450	2.100	210
Distributor III	2.100	210	2.310	690	3.000	300
Distributor	3.000	300	4.500	700	4.000	400
Consumer	4.000	-	4.000			**7.600**

Source: Processed by the Researcher

5. Indirect Subtraction Method (Credit Method)

In VAT imposition, tax is calculated by subtracting the tax collected during sales from the amount of tax paid during purchase, or also known as the credit method. In Indonesia, the method used is the indirect subtraction method or indirect deduction method. Basically, the purpose of this method is to ensure accuracy regarding the amount of tax due on the transactions that occur. The following is an illustration of Input Tax credit assuming a 10% tax rate still applies.

Table 2. Illustration of Indirect Subtraction Method

Business Lane	DPP	PK	PM	National Revenue
Importer	20.000	2.000	-	2.000
Manufacturer I	28.000	2.800	2.000	800
Manufacturer II	37.000	3.700	2.800	900
Distributor	45.000	4.500	3.700	800
Wholesaler	49.000	4.900	4.500	400
Retailer	55.000	5.500	4.900	600
Total Retailer VAT				**5.500**

Source: Processed by the Researcher

RESEARCH METHOD

This research employs a qualitative research method with literature study analysis techniques. According to Leavy (2022), qualitative approaches are used to further study social issues. The focus of this research is related to the cascading effect resulting from the current TI provisions. Based on this phenomenon, the researcher is interested in analyzing more deeply regarding the cascading effect resulting from the implementation of PER-03/PJ/2022 regarding TI.

RESULT AND DISCUSSION

1. Input Tax Credit Regulation

In implementing Input Tax, it must be based on a legal source. Broadly speaking, the crediting of Input Tax refers to Article 9 paragraph (2) of Law No. 8 of 1983 concerning VAT. However, there are other legal sources governing Input Tax crediting, namely through Government Regulation No. 38 of 1983 concerning the Implementation of the VAT Law of 1984 (GR 38/1983). In this GR, specifically in Article 15, the crediting of Input Tax in different Tax Periods is regulated. What distinguishes it from the source mentioned in the VAT Law of 1984 is that to be able to credit Input Tax in different Tax Periods, a requirement is needed, namely submitting an application to the tax authority regarding the crediting of Input Tax accompanied by reasons for the difference in Tax Periods.

In 1985, there was an update from GR 38/1983 to GR 22/1985. However, there were no changes regarding the clause of Input Tax crediting. Furthermore, detailed regulations were issued through derivative regulations, namely Decree of the Minister of Finance No. 1441b/KMK.04/1989. This regulation regulates two methods that can be used to credit Input Tax in different tax periods: 1) amending the VAT Period Tax Return of the respective Tax Period; and 2) crediting Input Tax in different Tax Periods can be done by reporting it in the VAT Period Tax Return at the time of crediting, on the condition that the crediting is still done within the current tax year or accounting year. KMK 1441b/1989 was later amended to

KMK No. 296/KMK.04/1994. There were additional regulations regarding Input Tax credit, namely the duration of Input Tax crediting.

In 1994, the VAT Law underwent changes. There was an addition of a clause in Article 9, through Article 9 paragraph (9) regulating Input Tax crediting in different Tax Periods. The amendment to the VAT Law ultimately resulted in two legal sources regulating Input Tax credit, namely Article 9 paragraphs (2) and (9). This condition then also led to the non-applicability of derivative regulations GR 22/1985 and KMK 296/1994. Ultimately, this indicates a loss of historical trace related to the implementation of Input Tax in different Tax Periods (Marzuki, 2022). Therefore, regarding the situation of Input Tax credit in different Tax Periods, it can only refer to Article 9 paragraph (9) of the VAT Law.

The independent normative assessment of Article 9 paragraph (9) of the VAT Law then raised many pros and cons in its interpretation. Therefore, in 2020, the tax authority issued a circular aimed at emphasizing the crediting of Input Tax in different Tax Periods through SE-02/PJ/2020. The circular further provides additional explanations regarding the method of Input Tax crediting, stating that crediting can be done by amending the relevant VAT Period Tax Return. However, there are additional provisions in crediting, where Input Tax must not have been previously charged as a cost in the acquisition price, and the registered taxpayers have not undergone examination. Since a circular is not a strong legal basis in a regulation, the provisions in SE-02/2020 were then incorporated into Regulation No. 18/PMK.03/2021, specifically through Article 63. In this regulation, the provisions regarding Input Tax crediting in different Tax Periods still adhere to SE-02/2020, where to credit the Input Tax, it must not have been previously charged as an acquisition cost, and to credit it, it must be through the submission or amendment of the relevant VAT Period Tax Return. However, there is a slight change in the clause in PMK 18/2021, which previously used the clause "at most 3 (three) months after the end of the Tax Period" to "in the next Tax Period at most 3 (three) Tax Periods after the end of the Tax Period." Below is a table of Input Tax credit regulations in different Tax Periods from year to year.

Table 3. Input Tax Credit Regulation in Different Tax Periods Over the Years

Regulation	Crediting Input Tax for Different Tax Periods
UU No. 8 Tahun 1983	Not Regulated
PP No. 38 Tahun 1983 (Pasal 15)	Crediting Input Tax (PM) for Different Tax Periods can be done by applying for input tax credit to the Directorate General of Taxes (DJP), accompanied by reasons for the difference in Tax Period.
PP No. 22 Tahun 1985 (Pasal 18)	There is no change from Government Regulation No. 38 of 1983
KMK Nomor 1441b/KMK.04/1989 (Pasal 3)	a) Correcting the VAT Return for the relevant Tax Period in accordance with Article 8 of Law No. 6 of 1983 (Income Tax Law); or b) Crediting the Input Tax in different Tax Periods as referred to in Article 18 of Government Regulation No. 22 of 1985

	by reporting it in the VAT Return for the Tax Period in which the crediting is done as long as it is still within the current tax year or accounting year..
KMK Nomor 296/KMK.04/1994	There is no change from Minister of Finance Regulation No. 1441b/KMK.04/1989
UU No. 11 Tahun 1994 (Pasal 9 ayat (9))	Crediting input tax for different Tax Periods can be credited in the next Tax Period at the latest by the third month after the end of the respective fiscal year, as long as it has not been accounted for as expenses and no examination has been conducted.
UU No. 18 Tahun 2000 (Pasal 9 ayat (9))	There is no change from Law No. 11 of 1994
UU No. 42 Tahun 2009 (Pasal 9 ayat (9))	Crediting input tax for different Tax Periods can be credited in the next Tax Period at the latest by **3 (three) months** after the end of the respective Tax Period as long as it has not been accounted for as expenses and no examination has been conducted.
SE Nomor SE-02/PJ/2020	Crediting Input Tax (PM) for different Tax Periods can be credited in the next Tax Period at the latest by **3 (three) months** after the end of the respective Tax Period. Input tax that cannot be credited with output tax in the same Tax Period may be due, among others, to the delayed receipt of the Tax Invoice. If the 3 (three) month period has passed, the crediting of input tax can be done through **the correction of the relevant VAT** Return. With the conditions: a) The relevant input tax has not been accounted for as expenses or not added (capitalized) in the acquisition cost of the relevant Goods or Services; and a) No examination has been conducted on the Taxable Entrepreneur.
UU No. 11 Tahun 2020 (Pasal 9 ayat (9))	There is no change from Law No. 42 of 2009
PMK No. 18/PJ/2021 (Pasal 63)	Crediting input tax for different Tax Periods can be credited in **the next Tax Period at the latest by 3 (three) Tax Periods** after the end of the Tax Period when the Tax Invoice was issued. The credited input tax is input tax that has **not been accounted for as expenses or not added (capitalized) in the acquisition cost of** Goods or Services. Crediting input tax in the next Tax Period is done by Taxable Entrepreneurs through **the submission or correction of the VAT Return.**

2. Input Tax Credit

In crediting Input Tax, the legal basis is Article 9 paragraphs (2) and (9) of the VAT Law. Sukardji in Kusumastuti and Putri (2019) mentioned three principles in Input Tax credit, including:

1) Input Tax is credited against Output Tax in the same Tax Period.
2) The credited Input Tax does not need to be categorized based on its taxable object.
3) The credited Input Tax cannot be divided per fiscal year based on its useful life.

In 2020, the government issued SE-02/PJ/2020 regarding Input Tax Crediting in Different Periods. In this circular, it is regulated that Input Tax crediting can be done through amending the VAT Period Tax Return provided that it has exceeded the specified time limit, which is 3 (three) months after the end of the relevant Tax Period. This then raises the assumption that Input Tax crediting can be done through regular VAT returns and amended VAT returns within 3 (three) additional Tax Periods for additional Input Tax credit. This assumption arises considering that, in substance, Input Tax credit can be done anytime to avoid cascading effects. Thus, to clearly understand the basis for allowing Input Tax crediting through amended VAT returns, it is necessary to first understand the business process. This is because there are two different processes: the Input Tax crediting process and accrual accounting.

As mentioned earlier, the mechanism of Input Tax credit is carried out to avoid cascading effects. The crediting is done routinely every month/period within the current year. In practice, Input Tax credit can occur under two conditions: when crediting is done in the same period and when crediting is done in different periods. The mechanism of Input Tax credit imposed by VAT is the difference between Output Tax and Input Tax.

a. Accrual Accounting

Accrual accounting is recording done due to a transaction or event occurrence (Dariana, 2015). Referring to the two Input Tax crediting situations explained earlier, only one is consistent with the principle of accrual accounting, which is when Input Tax crediting is done in the same Tax Period. This happens because when credited in the same Tax Period, recorded expenditures and revenues reflect the actual transactions. Additionally, there is an additional component recorded when spending, namely additional costs incurred for paid Input Tax. Similarly, when recording received income, there is additional income from received Output Tax.

This condition contrasts with Input Tax crediting done in different periods. In this condition, when recording expenditures, the additional component in the form of Input Tax is a component that has occurred previously, where the Input Tax has been paid or owed on the Tax Invoice for the relevant Tax Period. And if the Tax Invoice received in the following Tax Period is delayed, there will be no accounting recording and only calculation for tax credit. Thus, it can be said that the delayed Input Tax is "deposited" to be credited with previously occurred Output Tax when there is a delivery transaction. Therefore, in crediting Input Tax in different periods, the context of Input Tax is not contradictory to accrual accounting because in the VAT return, it will be recorded as tax credit. Meanwhile, accounting for Input Tax has also been done when that income is obtained.

b. Input Tax Crediting Process

The regulation regarding Input Tax crediting is essentially stipulated in the VAT Law. In Article 9 paragraph (2) of the VAT Law, it is mentioned that Input Tax can be credited with Output Tax in the same Tax Period. If there are conditions that cause Article 9 paragraph (2) of the VAT Law not to be met, then there is another way, which is Input Tax can still be credited in the following Tax Period, but with the condition that it is within a maximum of three months after the end of the relevant Tax Period. Moreover, crediting can be done if the Tax Invoice has not been charged as a cost and no examination has been conducted. The following is the content of Article 9 paragraph (9) of the VAT Law.

> "*Input Tax that can be credited, but has not been credited with Output Tax in the same Tax Period, can be credited in the following Tax Period at most 3 (three) months after the end of the relevant Tax Period as long as it has not been charged as a cost and no examination has been conducted*."

The above Article 9 paragraph (9) is a change in the Input Tax crediting regulation, which previously required registered taxpayers to make corrections to the VAT Period Tax Return for the relevant Tax Period. With this Article 9 paragraph (9), registered taxpayers are given convenience because crediting can be done within three months after the end of the relevant Tax Period. In other words, this tax credit can be recognized in the standard VAT return in the next Tax Period.

3. Provisions Regarding Tax Invoice Crediting

   a. Article 13 of the VAT Law

The provisions of Tax Invoices in the Law are regulated in Article 13 of the VAT Law. This article explains that Tax Invoices must be made by registered taxpayers when performing delivery activities. Furthermore, Article 13 paragraph (1a) also mentions the timing of Tax Invoice issuance. The following is its content.

"VAT is imposed at the time:

1) of delivery of Goods and/or Services;
2) of receipt of payment in cases where payment occurs before the delivery of Goods and/or Services;
3) of receipt of installment payments in cases of gradual delivery; or
4) at other times regulated based on regulations."

The administrative convenience of Tax Invoice issuance by registered taxpayers is given with the maximum time limit for Tax Invoice issuance, which is at the end of the month when the delivery is made as stated in Article 13 paragraph (2a) of the VAT Law. Thus, if registered taxpayers do not issue Tax Invoices or issue them late, sanctions will be imposed. This is in accordance with the provisions in Article 14 paragraph (4) of the General Tax Provisions Law, which states that:

> "*Against entrepreneurs or Taxable Entrepreneurs as referred to in paragraph (1) letters d or e respectively, in addition to the obligation to pay the due tax, administrative sanctions in the form of a fine of 1% (one percent) of the Tax Base are imposed*."

This means that, in addition to paying the due tax for Tax Invoices that are not issued or issued late, a fine of 1% of the VAT Base will also be imposed. Even if there is a delay in the relevant month's Tax Invoice, it can still be issued. Furthermore, since July 1, 2014, the Ministry of Finance has issued regulations stating that Tax Invoices must be issued electronically (e-invoices). This provision was implemented gradually and became fully effective on July 1, 2016. E-invoice issuance can be done through e-invoice applications provided by the tax authority through DJP online.

b. Policy on Crediting Tax Invoices in Different Tax Periods

Fundamentally, Tax Invoices (TIs) are obligations held by registered taxpayers (PKP) who make deliveries that incur VAT. TIs serve as evidence of tax collection, and currently, TIs used by the Tax Office (DJP) are in electronic form, often referred to as e-invoices. The purpose of TIs is to enable PKP to credit VAT, thereby avoiding cascading effects on buyers. On March 31, 2022, the government established Regulation PER-03/PJ/2022 concerning Tax Invoices, with the aim of facilitating and providing certainty for PKP to create and administer TIs. This regulation came into effect on April 1, 2022. PER DJP 03/2022 contains several additional provisions regarding TIs, one of which is through Article 18 paragraph (1). This article stipulates that e-invoices that have been created must be uploaded to the e-invoice application of the Tax Directorate General to obtain approval from the Tax Directorate General and be considered valid. Furthermore, there is a mandatory upload deadline for PKP, which is the 15th of the following month after the e-invoice is issued. Here are the clauses stated in paragraphs 1 and 3 of Article 18 of PER DJP 03/2022:

Paragraph 1: "*e-Invoices as referred to in Article 12 paragraph (2) must be uploaded to the Tax Directorate General using the e-Invoice application and obtain approval from the Tax Directorate General, no later than the 15th of the following month after the date of e-Invoice creation*."

Paragraph 3: "*e-Invoices that do not obtain approval from the Tax Directorate General are not considered Tax Invoices*."

Paragraph 18 paragraph (3) states that if the e-invoice uploaded to the DJP application is not approved, then the TI is not considered valid. Annex A number 3 also explains that one of the conditions that causes an e-invoice to not be approved is if the upload is done after the specified deadline, which is the 15th of the following month. Thus, TIs that are not considered valid cannot be used by PKP conducting delivery activities as tax credits.

4. Application of Policy on Crediting Tax Invoices in Different Tax Periods Reviewed from the Perspective of Cascading Effect

Before the issuance of PER DJP 03/2022, TI regulations only referred to the VAT Law. According to this law, the deadline for issuing TIs is at the end of the month of delivery, as stated in Article 13 paragraph (2a) of the VAT Law. There is no further explanation regarding TI issuance if it exceeds the specified deadline. However, in practice, many PKP issue TIs after the end of the month of delivery, which is the set deadline. This means that when there are PKP issuing TIs beyond the specified time, they can still issue TIs for deliveries in that month, but there are penalties for such conditions. The penalty imposed is an administrative fine of 1% of the VAT Base for being considered late. Furthermore, TIs are crucial documents when PKP wants to credit Input Tax. Therefore, even if TIs are issued late, they can still be credited for the relevant month.

This situation changed with the implementation of PER DJP 03/2022. This regulation stipulates that TIs are valid for use if they have been uploaded to the e-invoice application within the deadline, which is until the 15th of the following month after the month of delivery. If the upload exceeds the deadline, the TI is considered invalid and is not considered a TI. Therefore, if there are instances where PKP upload TIs late due to forgetfulness or other reasons, the invalidated TIs must be reissued, and the transactions for the corresponding deliveries will be included in the TI of the following month. Consequently, there will be no TI for Input Tax in the month of delivery, which is a requirement for crediting.

Cascading effect occurs when goods or services are interrelated and cannot be separated. One way to reduce cascading effects is by applying VAT calculations that consider Input Tax. This results in lower tax costs to subsequent links in the chain because of the Input Tax credited from previous links. VAT collection at each link in the production or distribution chain aims to reduce cascading effects.

The implementation of the policy on crediting TI in different Tax Periods, as regulated in Article 18 of PER DJP 03/2022, tends to potentially cause cascading effects. This impact is particularly felt by PKP operating as general trade distributors. PKP in this sector profit based on the number of deliveries they can make. The higher number of deliveries of goods received by general trade distributors often leads to delays in issuing TIs because the goods need to be distributed quickly.

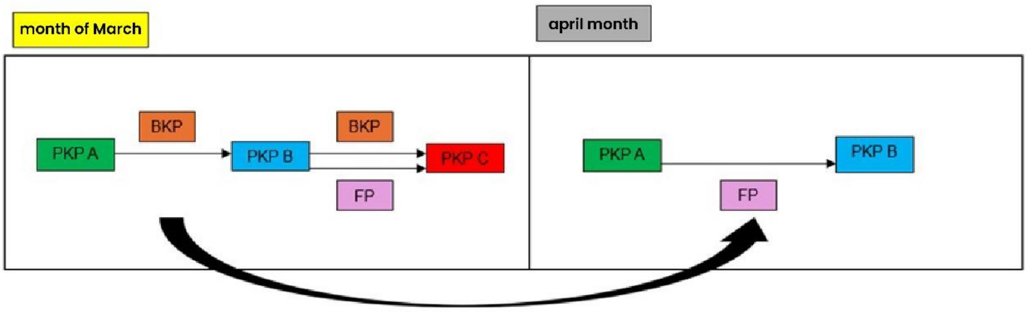


Illustration of cascading effect can be described as follows: PKP A delivers taxable goods (BKP) to PKP B in the tax period of March. PKP B then delivers the same goods in the tax period of March to PKP C. However, PKP A uploads the Tax Invoice (TI) for these goods late. When PKP B reports the VAT Return for the month of March, PKP B does not receive the Input TIs for the goods delivered by PKP A, although during the same month PKP B issues TIs for the delivery to PKP C. PKP B receives the TIs for the delivery of goods from PKP A in the month of April.

In the above illustration, it can be seen that Article 18 of DJP Regulation Number PER-03/PJ/2022 tends to cause cascading effects when one link in the distribution chain uploads the TIs late. This situation worsens when the profit margin applied to one chain is below the applicable VAT rate. In the illustration above, PKP B applies an average profit margin of 1%-2% for the deliveries of goods it makes. PKP B experiences overpayment in the VAT Return for April and the following months.

However, crediting Input Tax (PM) is used in the calculation as a way to avoid cascading effects. The use of the VAT concept aims to reduce the excessive tax burden borne by end consumers, which includes cumulative taxes. However, the enforcement of Article 18 of DJP Regulation Number PER-03/PJ/2022 with this TI upload deadline actually causes cascading effects in every link of the distribution chain.

For the implementation of tax policies, it is crucial to consider the principle of efficiency. Taxpayers should fulfill their tax obligations with efficient compliance costs. From this perspective, compliance with the enforcement of Article 18 of DJP Regulation Number PER-03/PJ/2022 becomes inefficient because PKP B has to bear the burden of crediting PM that it did not receive.

CONCLUSION

Based on the illustration results in Figure 1, it can be seen that the implementation of the policy of crediting TIs in different Tax Periods, as regulated in DJP Number PER-03/PJ/2022, especially in Article 18 related to the TI upload deadline in the DJP e-invoice application, tends to cause cascading effects. If there is a delay in uploading TIs in a chain, exceeding the deadline of the 15th of the following month as stipulated, then the TIs will be recorded in the following month. The impact of this is that deliveries that occur in that month will not have PM, so PKP has to bear the tax due as a result of the lack of PM that can be used. This is reflected in the increased compliance costs caused by this regulation. Figure 1 also shows the existence of double taxation effects that PKP B has to bear as a result of the delayed upload of TIs in the previous chain.

The implementation of policies before the existence of Article 18 of DJP Regulation Number PER-03/PJ/2022 by the government was actually appropriate. It can be seen that the government imposes a penalty of 1% of the VAT Base on PKP who are late in issuing TIs, but these TIs can still be credited in the respective month. The government has already received revenue from the sanctions imposed on PKP for late issuance of TIs, but PKP still have the benefit of using these TIs in the respective month.

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