Comparative Analysis of Late-Payment Tax Sanctions and Their Impact on Effective Tax Rates in Indonesia, Malaysia, and South Korea

Journal of Strategic Behavior — Accounting —

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Abstract

This study examines the impact of late-payment penalties and interest charges on the effective tax rate (ETR) of corporations in a comparative context across three jurisdictions: Indonesia, Malaysia, and South Korea. Administrative sanctions, designed to deter non-compliance and compensate the government for the time value of money lost, inevitably increase the total tax burden borne by firms, thus fundamentally altering their effective tax rate. This study employs a quantitative simulation using standardized financial data to ensure cross-jurisdictional comparability and isolates the regulatory effect of sanction design. The simulation applies the statutory penalty and interest rules from each jurisdiction to an identical financial structure. The results indicate that both penalties and interest substantially elevate the ETR. Indonesia's fixed surcharge penalty structure, often imposed upon audit, leads to the largest instantaneous ETR spike, demonstrating the severity of Quantity Risk. While South Korea's daily compounding interest mechanism imposes the steepest growth rate on tax liability over time (Duration Risk), the combined effect of high fixed surcharges and cumulative audit interest in the severe Indonesian scenario pushed the adjusted ETR up to 43,20%. The findings highlight the critical importance of timely tax compliance and proactive governance to avoid excessive effective tax burdens, offering policy insights for tax administrations to balance deterrence and fairness in penalty design.

Keywords:
Late-payment penalty, Tax interest, Effective Tax Rate (ETR), Tax compliance, Comparative simulation

1. Introduction

Timely tax payment is central to ensuring effective corporate compliance and stable state revenues. When payments are delayed, administrative sanctions comprising penalties and interest charges are necessary tools used by governments to recover lost revenue and deter future non-compliance. These sanctions, while serving an enforcement purpose, directly increase a firm's realized tax burden, thereby introducing volatility and uncertainty into the effective tax rate (ETR) calculation. Jurisdictions worldwide differ significantly in the design of these penalty systems; some rely on fixed surcharges, while others utilize compounding interest mechanisms. For instance, Indonesia employs a cumulative monthly interest mechanism alongside a significant lump-sum penalty upon audit, while South Korea applies a daily compounding interest rate. These differences in design fundamentally change how quickly tax liabilities grow and the type of enforcement risk firms face across countries, necessitating a comparative framework to understand their fiscal impact.

Despite extensive academic attention dedicated to statutory corporate income tax rates and factors determining ETR (such as tax incentives or avoidance behavior), limited comparative empirical analysis has focused on administrative sanctions—specifically penalties and interest—as key fiscal components affecting the ETR. Most traditional ETR research focuses primarily on statutory or accounting measures, neglecting these sanctions by treating them merely as administrative costs rather than integral parts of the total tax

burden. This omission leads to the underestimation of total tax expenses and miscalculation of future cash flow requirements in financial planning. This study aims to fill that crucial analytical gap by extending ETR measurement to explicitly include the financial implications of penalties and interest, analyzing how these mechanisms alter the ETR of corporations across Indonesia, Malaysia, and South Korea using a standardized simulation.

This study contributes significantly to the literature and practice by (1) extending the ETR measurement to rigorously incorporate administrative penalties and interest, providing a more accurate assessment of a firm's total fiscal burden; (2) comparing three distinct penalty regimes (Indonesia, Malaysia, and South Korea) using a standardized quantitative simulation to isolate regulatory effects; and (3) offering data-driven mitigation guidance for financial planning teams and policy advice for tax authorities regarding balanced enforcement design. These findings inform crucial Sustainable Development Goals (SDGs); higher and unpredictable ETRs resulting from punitive sanctions can harm investment and decent work opportunities (SDG 8), whereas better enforcement design and enhanced corporate governance support fair institutions and transparency (SDG 16). The remainder of this paper is structured as follows: Section 2 reviews literature and establishes the theoretical foundation and hypotheses. Section 3 presents the simulation method. Section 4 shows the empirical results and sensitivity analysis. Finally, Section 5 discusses the implications and provides conclusions.

2. Literature Review and Hypotheses Development

2.1 Effective Tax Rate (ETR)

The imposition of administrative sanctions for tax non-compliance is primarily grounded in Deterrence Theory. This theory posits that rational economic actors (corporations) are more likely to comply with regulations if the perceived cost of non-compliance (the penalty or interest charge) outweighs the benefits derived from delay or underpayment. In the tax domain, penalties serve a punitive, deterrent function, while interest charges serve a compensatory function, ensuring the government receives the time value of money lost due to delayed revenue.

Administrative sanctions, therefore, function as the price component of compliance risk. High, fixed penalties, such as the 50% surcharge in Indonesia (Quantity Risk), are designed to act as an immediate, severe deterrent upon detection. Conversely, compounding interest structures (like in South Korea) penalize prolonged non-compliance, compensating the government while punishing procrastination through escalating Duration Risk. The Adjusted ETR, which incorporates these sanctions, serves as an empirical measure of how effectively the cost of deterrence is translated into a realized fiscal burden for the non-compliant corporation. A rapid increase in ETR signifies a high operational risk linked directly to compliance failures, indicating the severity of the regulatory environment.

2.2 Effective Tax Rate (ETR) and Administrative Additions

The traditional Effective Tax Rate (ETR) is calculated as the ratio of total tax expenses to pre-tax earnings. Historically, academic ETR analysis has focused almost exclusively on statutory corporate income taxes, ignoring administrative additions like penalties and interest. This approach views sanctions as non-core administrative expenses, thus overlooking their substantial financial magnitude, especially in intensive self-assessment systems.

However, incorporating administrative sanctions into ETR calculations is necessary for an accurate assessment of the total tax burden (as proposed by Gupta & Newberry (1997), these additional costs

must be recognized as extensions of the total tax burden, particularly when enforcement is robust. When penalties and interest are included, the ETR shifts from reflecting solely policy rates to also encompassing the behavioral cost of non-compliance. This expansion has critical implications: an unstable ETR distorts internal financial performance comparisons and external attractiveness metrics used by investors, potentially signaling higher operational risk than statutory rates alone would suggest.

2.3 Comparative Sanction Frameworks in Indonesia, Malaysia, and South Korea

Sanction structures vary significantly among the three selected jurisdictions, creating differential risk profiles for corporations.

- ***Indonesia:*** *The system combines a proportional, cumulative interest rate (e.g., 0.53% per month) for routine late payments, with a severe, fixed-percentage penalty (up to 50% of the underpaid tax) imposed upon audit determination (SKPKB). This creates a primary vulnerability to* ***Quantity Risk****, where the largest financial shock is sudden and fixed, rather than accumulated over time.*
- ***Malaysia:*** *This regime uses a simpler, two-tier fixed penalty system: an initial 10% lump sum, followed by an additional 5% if the balance remains unpaid after 60 days. This provides administrative predictability but may be less proportional to the duration of the delay compared to interest-based systems.*
- ***South Korea:*** *This jurisdiction relies on a daily compounding interest rate, making it susceptible to* ***Duration Risk****. Although the daily rate may appear small (0.025%), the compounding nature results in the steepest exponential growth in tax liability over time. Furthermore, penalties like the non-compliance fine based on Average Daily Revenue (up to 0.3% per day) introduce catastrophic* ***Systemic Risk****, as the penalty basis is the firm's top-line revenue, not just the tax owed.*

2.4 Conceptual Framework and Hypotheses Development

The conceptual framework illustrates a positive and direct relationship between the imposition of administrative sanctions (penalties and interest) and the Adjusted Effective Tax Rate (ETR). Based on the structure of sanctions and their accumulation mechanisms, the following hypotheses are formalized:

- ***H1:*** *Late-payment penalties and interest significantly increase the effective tax rate (ETR) of corporations.*
- ***H2:*** *The magnitude of ETR increase differs across jurisdictions due to varying penalty and interest mechanisms.*
- ***H3:*** *South Korea's compounding interest structure produces the highest ETR escalation, followed by Indonesia and Malaysia.*

3. Research Methodology

3.1 Research Approach and Rationale

This research employs a quantitative simulation approach using a standardized corporate model. The standardized simulation approach is crucial because it ensures an "apples-to-apples" comparison across jurisdictions by controlling for all non-tax variables (e.g., revenue, operating costs, business structure). This methodological choice allows the research to isolate the pure effect of regulatory differences in statutory penalty and interest rules on the effective tax burden.

3.2 Data Sources and Scope

The study utilizes secondary data derived from the tax regulations of Indonesia, Malaysia, and South Korea, combined with standardized financial case data. Key statutory sources include Indonesia's Law No. 7 of 2021 (Harmonization of Tax Regulations), Malaysia's Income Tax Act 1967, and South Korea's National Tax Collection Act.

The simulation is based on normalized financial units, simplifying the comparison by eliminating currency exchange volatility. The core financial parameters used are standardized for all three jurisdictions:

Table 1. Standardized Financial and Statutory Parameters

Component	***Assumed Value***	***Notes***
Revenue	*100,000,000 (Local unit)*	*Identical for all Jurisdictions*
Operating Costs	*20,000,000 (Local unit)*	*Standardized cost assumption*
EBIT (Pre-Tax Income)	*80,000,000 (Local unit)*	*Earnings before tax*
Corporate Income Tax (CIT rate)	*Indonesia: 22%, Malaysia: 24%, South Korea: 25%*	*Statutory rates*
Late-payment Period	*6.12.24. month*	*Uniform assumption*
Currency	*Local (normalized)*	*Exchange-neutral comparison*
Interest Rate (Indonesia Audit)	*1.78% per month*	*Rate used in severe SKPKB scenarios*
Surcharge Penalty (Indonesia Audit)	*50% of underpaid tax*	*Lump sum upon audit (Quantity Risk)*

Source: Author's calculation (2025)

3.3 Variable Definition and Calculation Procedure

The key dependent variable is the Adjusted ETR. The simulation calculates the total tax burden under various non-compliance scenarios defined by two independent variables: the duration of delay (in months/days) and the magnitude of underpayment (as a percentage of the principal tax).

Specific Calculation Formulas for sanctions:

1. Late-Payment Penalty (P):

P=Unpaid Tax × Penalty Rate × Delay (months)

(Applicable for proportional systems or fixed surcharges).

2. ***Interest Charge (I):***

For proportional systems (Indonesia, Malaysia):

I = Unpaid Tax × Monthly Interest Rate × Delay (months)

For compounding systems (South Korea):

I = Unpaid Tax × ((1+ Daily Rate)^Days of Delay) - Unpaid Tax

3.4 Analytical Techniques

The analysis focuses on two main techniques: comparative analysis and sensitivity analysis. Comparative analysis quantifies the difference between the Baseline ETR (statutory rate only) and the Adjusted ETR across various standardized scenarios, thereby testing H1 and H2. Sensitivity analysis, particularly focusing on Indonesian variables (Delay Duration, Administrative Interest Rate, and Statutory Surcharge Penalty), is used to identify which specific regulatory levers contribute most significantly to ETR escalation, providing critical insight into the profile of compliance risk for corporate financial planning.

4. Result

4.1 Descriptive Analysis of Statutory Sanction Risks

The simulation began by documenting the statutory mechanism of penalties and interest across the three jurisdictions, highlighting the nature of the primary fiscal risk faced by corporations in each country.

Table 2. Statutory Late-Payment Penalties & Interest: Comparative Analysis

Country	***Type of Penalty/Interest***	***Basis of Imposition***	***Rate/Formula***	***Critical Aspect/Primary Risk***
Indonesia	*Tax Increase Penalty (Audit)*	*Underpaid Income Tax (PPh)*	*50% of the underpaid Income Tax*	*Quantity Risk: Imposed as a lump sum upon audit*
Indonesia	*Late Payment Interest (Routine)*	*Underpaid Tax/Principal*	*0.53% per month (Fixed Rate)*	*Duration Risk: Interest accumulation is cumulative*

Malaysia	*Late Payment Penalty (Installment)*	*Unpaid Tax Installments*	*10% lump sum*	*Negligence Risk: Imposed if installment is paid late*
South Korea	*Late Payment Penalty (Interest)*	*Unpaid Tax*	*Interest rate set by Presidential Decree (Daily Rate)*	*Monetary Risk: Dynamic rate, compounding daily*

Source: Author's calculation (2025)

The descriptive analysis confirms that while Indonesia and Malaysia rely on fixed-rate penalties, Indonesia's system poses a severe, immediate fiscal shock due to the 50% surcharge upon audit determination (Quantity Risk). Conversely, South Korea's dynamic, compounding daily rate introduces higher volatility and Duration Risk.

4.2 Baseline ETR vs. Adjusted ETR: Quantifying Tax Distortion

To validate H1, the simulation compared the baseline ETR (without sanctions) against the Adjusted ETR under various non-compliance scenarios focused on the Indonesian regime due to the high severity of its audit sanctions.

Table 3. Effective Tax Rate (ETR) Distortion: Baseline vs. Adjusted ETR Scenarios

Scenario	***Profit (Pre-tax) (Rp)***	***Principal Tax (Rp)***	***Total Penalty (Rp)***	***Total Interest (Rp)***	***Total Tax Burden (Rp)***	***Statutory ETR (%)***	***ETR (%)***
A. (100% Compliance)	*6 Bilioner*	*1.320 Bilioner*	*0*	*0*	*1.320 Bilioner*	*22%*	*22%*
B. 1Month late routine interest	*6 Bilioner*	*1.320 Bilioner*	*0*	*7 Milioner*	*1.327 Bilioner*	*22%*	*22.12%*
C. Severe SKPKB, 24 months	*6 Bilioner*	*1.980 Bilioner*	*330 Milioner*	*282.240 Milioner*	*2.592.240 Bilioner*	*33%*	*43.20%*

Source: Author's calculation (2025)

Table 3 strongly supports H1. In the most severe audit scenario (III.b), the Adjusted ETR reaches 43.20%. This finding demonstrates that administrative sanctions can drastically distort a firm's effective tax burden, causing an increase of 21.20% percentage points above the statutory rate of 22.00% (Scenario I), thus validating the argument that these sanctions constitute a significant fiscal expense, not merely an administrative one.

4.3 Scenario Outcomes: Duration Risk and Quantity Risk

Further simulation on specific delay and underpayment magnitudes (Table 3) quantified the relative contribution of different sanction types.

Table 4. Delay and Underpayment Scenarios (Indonesia Focus)

Scenario	*Days Late*	*Underpay % of Principal*	*Principal (Initial + UP) (Rp)*	*Surcharge Penalty (Rp)*	*Interest (Rp)*	*ETR %*	*Δ vs Baseline (%)*
A.	*30*	*0%*	*1.320 Bilioner*	*0*	*7 Milioner*	*22.12%*	*0.12%*
B.	*365 (12 Months)*	*0%*	*1.320 Bilioner*	*0*	*83.800 Milioner*	*23.39%*	*1.39%*
C.	*24 Months*	*50% (Rp 660 M)*	*1.980 Bilioner*	*330 Milioner (50%)*	*282.240 Milioner*	*34.94%*	*12.94%*

Source: Author's calculation (2025)

The comparison confirms that the imposition of the 50% statutory surcharge penalty on the underpayment (Quantity Risk) in audit scenarios (e.g., III.b, where the total ⊿ is +12.94%) is the overwhelming financial driver of ETR escalation, dwarfing the relatively manageable increase (+1.39%) caused by 12 months of routine interest accumulation (Duration Risk). This finding suggests that for corporations operating under the Indonesian regime, avoiding an audit finding that triggers the fixed surcharge is financially paramount compared to mitigating routine monthly interest.

4.4 Sensitivity Analysis of ETR Drivers

The sensitivity analysis rigorously tested the elasticity of ETR* to three critical variables under the Indonesian regime.

Table 5. ETR Increase Sensitivity Analysis (Indonesia Focus)

Variable Analyzed	*Variation Range Tested*	*ETR Final (%)*	*Δ vs Baseline (ETR Increase)*	*Mitigation Priority*
Delay Duration	*24 Months (Interest 0.53%)*	*24.86%*	*+2.86%*	*Cash Management*
Administrative Interest Rate	*1.78% (12 Mth SKPKB Case)*	*27.26%*	*+5.26%*	*Audit Data Reconciliation*
Statutory Surcharge Penalty	*50% of Underpayment (Art 13)*	*34.94%*	*+12.94%*	*Digital Internal Control*

Source: Author's calculation (2025)

Table 5 confirms that the Statutory Surcharge Penalty (Quantity Risk) is the single largest instantaneous multiplier, causing the highest observed change in ETR ⊿+12.94%). Furthermore, the simple administrative

act of shifting the interest rate from the routine cooperative rate (0.53%) to the audit rate (1.78%) causes the ETR increase to nearly double in comparable duration scenarios (+2.86% to +5.26%), reinforcing the highly destructive financial nature of entering an audit status. This makes proactive error correction before official audits a critical governance objective.

5. Discussions and Conclusions

5.1. Reconceptualizing ETR: Integrating Behavioral Costs and Regulatory Risk

The simulation results fundamentally validate H1, confirming that administrative sanctions significantly increase the ETR beyond statutory rates. This expansion of the ETR concept moves it from a passive measure of fiscal policy rates to an active measure of behavioral and regulatory risk. When ETR reaches 43.20% due entirely to sanctions, it demonstrates that the total cost of capital for a non-compliant firm is drastically higher than for a compliant competitor.

This finding aligns with broader tax research, such as the review by Hanlon & Heitzman (2010), which discussed the importance of incorporating non-statutory costs, often related to tax avoidance, into financial analysis. While this study focuses on non-compliance rather than avoidance, the principle remains: sanctions represent the measurable cost of high compliance risk and poor corporate governance, much like the hidden costs associated with aggressive tax avoidance. ETR instability, driven by the threat of 50% lump-sum penalties, creates severe information asymmetry, potentially leading to incorrect valuations by investors who traditionally rely only on statutory rates.

5.2 Comparative Analysis of Sanction Structure Effectiveness (H2 & H3)

H2 is confirmed, as the magnitude of ETR increase differs based on the specific structure of the sanction. However, the simulation provides a nuance regarding H3. While South Korea's compounding structure is theoretically the steepest for prolonged periods (Duration Risk), the Indonesian regime's immediate 50% surcharge upon audit (Quantity Risk) proved to be the single most potent financial escalator in the tested scenarios.

This distinction between Duration Risk (KR) and Quantity Risk (ID) is crucial for policy implications. Quantity Risk (ID) creates a high and instant shock, demanding proactive data reconciliation and internal controls to prevent audit findings. Conversely, Duration Risk (KR) demands superior cash management and prompt remittance to minimize the compounding effect. The immediate financial destruction caused by the Indonesian 50% surcharge highlights that for Asian jurisdictions relying on lump-sum penalties, regulatory design must balance deterrence with the potential damage to corporate financial health, which in turn impacts investment capacity.

5.3 Corporate Governance and Mitigation Strategies (SDG 16)

Mitigating the high ETR risk must be integrated into the firm's Good Corporate Governance (GCG) framework, directly supporting SDG 16 (Peace, Justice, and Strong Institutions). The analysis dictates that mitigation priorities must address the most sensitive ETR drivers, shifting focus from merely financial optimization to technological and procedural controls.

Table 6. Mitigation Strategies and Policy Levers Aligned with Sustainable Development Goals (SDG 8 & 16)

Problem	*Primary Root Cause*	*Priority Intervention*	*Owner*	*KPI*
ETR Increase (Duration)	*Late remmittance (Routine Interest)*	*Implement 5 day SLA for remittance Remittance before due date*	*Departemen Accountong& Finance*	*Average delay time = 0 days*
South Korea	*Cross-Border E-Invoicing data failure*	*Implement Real-time tax data synchronization API (NTS)*	*Departemen IT&Data Science*	*E-Invoicing Error rate = 0%*
ETR Increase (Quantity)	*Auditing Finding (SKPKB) triggering 50% penalty*	*Sticker digital internal control and reconciliation process*	*Departemen Accounting &Finance*	*Accuracy of Estimed Estimated tax payable >95%*

Source: Author's calculation (2025)

The commitment to strict KPI targets, such as "Average delay time = 0 days" and "E-Invoice Error Rate = 0%," signifies a commitment to procedural excellence and fiscal transparency. This active management of compliance risk strengthens the firm's integrity and, by stabilizing revenue flows, ultimately contributes to the robustness and accountability of state institutions (SDG 16).

5.4 Fiscal Justice and Sustainable Growth (SDG 8)

The volatility and magnitude of ETR escalation raise concerns about fiscal justice. When two firms with identical pre-tax profits bear vastly different tax burdens (22.00% vs. 43.20%) due solely to compliance failures, horizontal equity is compromised. Unpredictable high ETRs act as a disincentive to investment, potentially inhibiting expansion, job creation, and sustainable economic growth (SDG 8).

For policymakers, the insights derived from the sensitivity analysis are crucial. Designing sanctions that prioritize predictability and proportionality perhaps by capping the total penalty exposure or linking interest rates less severely to the audit status can maintain deterrence while minimizing harmful impacts on corporate investment decisions necessary for economic development. Compliance, when supported by strong Compliance Risk Management (CRM) as outlined in the mitigation strategies, ensures a stable revenue base for the state, which is vital for funding development programs and fostering decent work (SDG 8).

6. Limitations of Research

6.1 Conclusion

This study confirms, using quantitative simulation across Indonesia, Malaysia, and South Korea, that late-payment penalties and interest constitute a substantial fiscal burden,

significantly increasing the Effective Tax Rate (ETR) of corporations. The magnitude of ETR escalation is highly sensitive to the sanction structure, validating H2. While South Korea's compounding interest poses a high Duration Risk, the Indonesian regime's instantaneous 50% surcharge penalty represents the most severe financial threat (Quantity Risk), capable of pushing the adjusted ETR (ETR) to over 43%. These findings necessitate that corporate financial planning extend the traditional ETR concept to ETR to accurately assess total fiscal exposure and regulatory risk. The analysis underscores that strategic mitigation must prioritize digital internal controls and real-time data synchronization to prevent audit findings that trigger maximum fixed penalties.

6.2 Research Limitations and Future Studies

This study relies on numerical simulations based on a single, standardized set of financial data and assumes the interest rates from a specific period (KMK No. 7/MK/EF/2025). Consequently, the findings might lack the generalizability inherent in empirical studies across diverse industrial sectors.

Future research should empirically validate these findings using multi-firm data across various sectors and industries to broaden the applicability of the ETR model. Furthermore, subsequent research could integrate behavioral factors, such as the psychological impact of sanctions (tax morale), and examine how investment in compliance technology impacts the frequency and severity of fiscal non-compliance in practice. Specifically, future models could dynamically simulate how penalty escalation impacts firm cash flow and compliance sustainability over longer periods

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