



**LUND UNIVERSITY**

School of Economics and Management

Master's Programme in Economic Growth, Population and Development

**The 2008 Indonesia's Taxation Reform and Its Impact on Indonesian Tax  
Compliance**

by

**Indra Yanuareza Adianto**

**In7446ad-s@student.lu.se**

*Abstract: Indonesia had a taxation reform that was started from 2001 and ended in 2008. The taxation reform transformed both the tax regulation and tax institution. This study evaluates the impact of the taxation reform in Indonesia in 2008 to the tax compliance level of taxpayer, both corporate and personal taxpayer, in Indonesia and what factors that influence Indonesian tax compliance after the taxation reform. The tax compliance level in this study was measured by comparing the number of annual tax report submitted from corporate and personal taxpayer and the number of taxpayer that obliged to submit their tax report.*

*Keywords:* Taxation Reform, Tax Compliance Ratio, Tax Report, Corporate Taxpayer, Personal Taxpayer

EKHS21

Master's Thesis (15 credits ECTS)

May 2019

Supervisor: Tobias Axelsson

Examiner: Andres Palacio

Word Count: 14,618

# Table of Content

1	Introduction .....	1
1.1	Taxation Reform .....	1
1.2	Thesis Aim and Research Question .....	3
1.3	Thesis Disposition .....	3
2	Literature Review .....	4
2.1	The Importance of Tax .....	4
2.2	Tax Efficiency .....	4
2.3	Taxation Reform .....	5
2.4	Tax Compliance .....	6
2.5	Indonesian Taxation Reform .....	8
3	Theoretical Review .....	12
3.1	Taxation Factors.....	12
3.1.1	Tax Regulation.....	12
3.1.2	Tax Institution.....	13
3.2	Non-Taxation Factors.....	14
4	Data and Methodology .....	17
4.1	Data .....	17
4.1.1	Tax Compliance Ratio .....	17
4.1.2	Public's Satisfactory Ratio .....	17
4.1.3	Tax Audit and Investigation Report .....	18
4.1.4	Indonesia's Corruption Perception Index .....	18
4.1.5	The DGT's Stakeholder Satisfaction Index .....	18
4.1.6	The Number of Tax Officer and Tax Officer Trained .....	18
4.1.7	The Number of Taxpayers Using eSPT and eFiling .....	18
4.2	Methodology .....	19
4.2.1	Calculation of Tax Compliance.....	19
4.2.2	Thesis Limitation .....	20
5	Empirical Analysis .....	21
5.1	The Taxation Reform Impact on the Tax Compliance .....	21
5.1.1	Indonesian Taxation during the Taxation Reform .....	21
5.1.2	The transformation of Tax Compliance Ratio in Indonesia .....	22
5.1.2.1	Personal Taxpayer .....	23
5.1.2.2	Corporate Taxpayer .....	24
5.1.2.3	Tax Compliance of All Taxpayer.....	26

5.2	Factors that Influence Tax Compliance in Indonesia .....	26
5.2.1	Taxation Factors.....	26
5.2.1.1	Tax Regulation.....	26
5.2.1.2	Tax Institution .....	32
5.2.2	Non-Taxation .....	43
6	Discussion .....	46
7	Conclusion .....	49

## List of Figures

Figure 1: Tax Reform, Tax Compliance, Tax-to-GDP, and Tax Revenue Connection .....	6
Figure 2: Factors that Influence Tax Compliance .....	12
Figure 3: Factors that Influence Tax Compliance the Most .....	16
Figure 4: Tax Compliance Ratio's Formula .....	20
Figure 5: Indonesian Annual Tax Collected Ratio 2003-2007 .....	21
Figure 6: The Tax-to-GDP Ratio of Indonesia, Malaysia, Thailand, and Vietnam 2002-2007 .....	22
Figure 7: Number of Personal Taxpayers Obligated to File Tax Report and Number of Tax Report Received by DGT .....	24
Figure 8: Personal Taxpayer Tax Compliance Ratio 1996-2016 .....	24
Figure 9: Number of Corporate Taxpayers Obligated to File Tax Report and Number of Tax Report Received by DGT .....	25
Figure 10: Corporate Taxpayer Tax Compliance Ratio 1996-2016 .....	25
Figure 11: Tax Compliance Ratio 1996-2016 .....	26
Figure 12: Number of Tax Audit Report .....	30
Figure 13: DGT Headquarters Organisational Structure Before the Taxation Reform.....	34
Figure 14: DGT Headquarters Organisational Structure after the Taxation Reform .....	35
Figure 15: The Number of Taxpayers who are Using eSPT and eFiling .....	37
Figure 16: Tax Service Office and Tax Office Structural Organisation .....	39
Figure 17: DGT's Stakeholder Satisfaction Index from 2010 to 2016 .....	41
Figure 18: Number of Tax Officer and Tax Officer Trained 2009-2015 .....	42
Figure 19: Public Satisfaction Survey 2008-2018 .....	44
Figure 20: Indonesian CPI 2007-2016 .....	45
Figure 21: Tax Compliance Ratio 1996-2016 .....	46

## List of Tables

Tables 1: Personal Taxpayer Income Tax Rates .....	28
Tables 2: Non-Taxable Income 2001-2019.....	29
Tables 3: Personal and Corporate Taxpayer Compliance 1996-2016.....	47

## List of Abbreviations

AR: Account Representative

BPJS: *Badan Penyelenggaraan Jaminan Sosial* / Social Insurance Administration Organization

CC: Compliance Coefficient

CPI: Corruption Perception Index

GDP: Gross Domestic Product

DGT/DJP: Directorate General of Taxes / Direktorat Jenderal Pajak

Directorate Inteldik : *Direktorat Intelijen dan Penyidikan* / Directorate of Intelligence and Investigation

Directorate KITSDA: *Direktorat Kepatuhan Internal dan Transformasi Sumber Daya Aparatur* / Directorate of Internal Compliance and Apparatus Transformation

Directorate PKP: *Direktorat Potensi, Kepatuhan dan Penerimaan Perpajakan* / Directorate of Potential, Compliance, and Revenue of Taxation

Directorate TIP: *Direktorat Teknologi Informasi Perpajakan* / Directorate of Information Technology of Taxation

Directorate TTKI: *Direktorat Transformasi Teknologi Komunikasi dan Informasi* / Directorate of Transformation of Communication and Information Technology

IT: Information and Technology

JKN: *Jaminan Kesehatan Nasional* / National Health Insurance

Kanwil LTO: *Kantor Wilayah Large Taxpayer Office* / Large Taxpayer Regional Office

Karikpa : Kantor Pemeriksaan dan Penyidikan Pajak / Tax Audit Office

KPK: *Komisi Pemberantasan Korupsi* / Corruption Eradication Commission

KPP: Kantor Pelayanan Pajak / District Tax Office

KPP PBB: *Kantor Pelayanan Pajak Bumi dan Bangunan* / Land and Building District Tax Office

MoF: Ministry of Finance

NPWP: *Nomor Pokok Wajib Pajak* / Number of Taxpayer Identification Number

NVC: Net Voluntary Compliance

OECD: The Organisation for Economic Co-operation and Development

PBB: *Pajak Bumi dan Bangunan* / Sales Tax on Luxury Goods and Land and Building

PPDDP: *Pusat Pengolahan Data dan Dokumen Perpajakan* / Data and Document Processing Center of Taxation

PVAT: Productivity Index of Value Added Tax

SIDJP: *Sistem Informasi Direktorat Jenderal Pajak* / Directorate General of Taxes Information System

UU KUP: *Undang-Undang Ketentuan Umum Perpajakan* / Law on General Provisions and Tax Procedures

UU PPh: *Undang-Undang Pajak Penghasilan* / Law on Income Tax

VAT: Value Added Tax

SII: Servicios de Impuestos Internos, Chile's Tax Agency

# The 2008 Indonesia's Taxation Reform and Its Impact on Indonesian Tax Compliance

## 1 Introduction

### 1.1 Taxation Reform

Countries need a steady income source to run the government and fund their development expense, such as infrastructure, national defence, health services, the salary of civil servants and education. Even though each country has various kind of income source to fund their expenses, in most countries, tax plays a crucial part. Tax matters for development not only as a source of revenue and growth but also as a critical part in improving institutions, markets, and democracy by making the country responsible to its taxpayer (Owens, 2009).

Indonesia, which is the biggest country in South East Asia and the third most populous developing countries with more than 250 million population (The Central Bureau of Statistics, 2019), have ambitious development targets to enhance its infrastructure and fund its public services. Indonesia's infrastructure was left behind the average of other countries in the South East Asia region (Mustajab, 2009). Furthermore, Indonesia was planning to launch a national health care programme. The health care programme would be handled by a new government institution called Badan Penyelenggaraan Jaminan Sosial (BPJS) or Social Insurance Administration Organization (BPJS Kesehatan, 2014). BPJS Kesehatan would administer the National Health Insurance labelled as Jaminan Kesehatan Nasional (JKN). The programme itself would be started in January 2014 and was expected to cover all Indonesia citizen. The infrastructure development and health care programme require a tremendous amount of money.

Indonesia relies on taxation as its primary income source to fund government expenditure (Lubis, 2015). In the year 2000, more than 55 per cent of its income came from tax revenue and the percentage was increasing every year, caused by the government effort to reduce dependence on oil and gas revenue due to the declining of



Indonesia's oil and gas production. However, Indonesian taxation has efficiency problems that need to be solved. To improve tax efficiency and maximise the tax revenue potential, the Indonesian Government initiated Taxation Reform in 2001.

Anggito Abimanyu (2003) stated that the taxation reform in Indonesia is a fundamental transformation in every aspect of Indonesia's taxation. The main reason why a country reforms its taxation is to improve the efficiency of its tax collection, which will lead to an increase in tax revenue. In the early 21<sup>st</sup> century, Indonesian taxation had an inefficiency problem in its tax system. To improve efficiency in its taxation, Indonesia had to enhance its tax compliance and reform its tax institution. Many experts argued that improvement in tax compliance would maximise the tax collection and improve annual tax revenue. According to Rahman (2017), success in taxation to a large extent depends on tax compliance.

The taxation reform had three primary goals. First, the improvement of tax compliance. Second, the improvement of the taxpayer trust to the Indonesian tax administration. Third, the improvement of the tax officer's productivity (Purnomo, cited in Abimanyu and Megantara, 2009). In addition to these broader goals, the taxation reform was meant to improve the Indonesian tax institution's information technology, both software and hardware, to simplify the tax system and create an application to make the taxpayer pay and report their tax easier. The improvement in these aspects was expected to make the tax system in Indonesia to become more efficient and eliminate one of the main taxation problems in Indonesia the low level of tax compliance ratio (Hutagaol, 2006). The improvement of the tax compliance was expected to increase the annual tax revenue collected and can be used to fund infrastructure development, health care programme and government investment. Moreover, the increase in tax revenue would decrease the financial dependency on foreign and domestic debt.

The 2008 taxation reform in Indonesia was a long process of reformation. The taxation reform is initiated from 2001 to 2008 with the result of new tax regulation and the restructuring of Directorate General of Taxes of Indonesia (DGT) either in the organisational structure for both headquarter and branches, and tax officer's career. DGT, known as Direktorat Jenderal Pajak (DJP), is an Indonesian government institution under

the Ministry of Finance (MoF) of Indonesia. DGT, which is headed by the Director-General of Taxes, has the task of formulating and implementing tax policies and technical standardisation regarding taxation. DGT is the only institution in Indonesia, which has the right to observe, evaluate, receive reports, and audit in the field of taxation (Pajak.go.id 2018).

## 1.2 Thesis Aim and Research Question

This thesis aims to see the impact of the taxation reform in 2008 to the tax compliance level in Indonesia. To this end, this thesis has two questions. The first question is, ***how has tax compliance changed with the Taxation Reform*** since the main goals of the 2008 Taxation Reform were tax compliance improvement. The second question is ***what has influenced the change of the compliance level in Indonesia after the Taxation Reform*** to understand the tax compliance after the Taxation Reform.

## 1.3 Thesis Disposition

This thesis is structured as follows. The first section is the introduction, which describes the background of the thesis topic and the thesis object, thesis aims and the research questions of the thesis. The second section is the literature review and the theoretical review. Literature review briefly introduces the previous study related to the taxation reform that had happened in Indonesia and other countries which experienced in reforming their taxation system to improve their taxpayer's compliance. The theoretical review describes theories about the reason why people are willing to pay taxes and what reason that may improve tax compliance. The third section is the data and method. The data section explains what kind of data was used in this thesis, how the data were used and the source of the data. The method section explains what kind of method is used for this thesis, what is the formula is used, and the limitation of this thesis. The fourth section describes the impact of the taxation reform on the tax compliance level in Indonesia and what aspects may affect Indonesia's tax compliance after the taxation reform is done. Finally, the fifth section concludes the thesis.

## 2 Literature Review

### 2.1 The Importance of Tax

Numerous author explains the definition of taxes. Tax, as many people acknowledge, is an income source for the government, and the government will use the collection of the tax for development purposes (Edame, 2014). James (1978) stated that tax is a compulsory levy made by public authorities for which nothing is received directly in return. Adriani (2005) explained that tax is a mandatory contribution for the country, payable by the taxpayer and paid it based on related laws, without getting anything in return directly, which is used to fund public expenditures related to government's duty to run the country. Based on previous explanation, it can be seen that tax has five essential roles: tax is a public contribution to the government, tax is mandatory for the citizen (taxpayer), the government collects the tax, there is no direct contribution in return for paying tax, and tax is used to fund government expenditure.

OECD (2013) stated that tax matter for development for some reason. First, the tax provides sustainable funds for long term growth. Second, the tax reduces the country's reliability to international aid. Third, stable and predictable tax systems provide crucial instruments for trade and investment. Fourth, fair, dependable, and trustworthy tax systems improve development by pushing the government to be more responsive to their people (OECD, 2013). This opinion illustrates the significance of tax for economic development. It is not a surprise if countries nowadays keep on trying to improve their tax revenue every year. To have a tax revenue with steady growth, the government should impose an effective and efficient taxation system without creating any incriminating situation for their people.

### 2.2 Tax System Efficiency

According to Adam Smith (1776), a good tax system is designed based on an appropriate set of rule and the rules itself are supposed to be a balance between the taxpayer and the government's interests. The taxation system is defined to be efficient if it minimises distortions and maximises economic efficiency subject to meet other

government requirements (Auerbach, 2001). However, imposing an efficient taxation system is not an easy task. New business models and tax evasion practices are invented almost all the time. These inventions are reasons why some countries had taxation reform. They try to adapt their tax regulation to the latest business model and tax evasion and avoidance model. Kent (2015) explained that to improve efficiency in the tax system, it supposed to be competitive against other states so it would not encourage tax resources to move to other countries which offer better system and tax should be fair to all taxpayer without favouring on one individual or groups at the expense of another.

### 2.3 Taxation Reform

According to Rao (2014), taxation reform is a transformation of the tax system to improve the efficiency of tax administration and maximise the economic and social benefits that can be achieved, thus taxation reform could lessen tax evasion and tax avoidance by creating a more efficient and fair tax collection. From the previous argument, it can be said that improvement in tax administration efficiency is crucial to improve tax revenue collected, and one way to improve tax administration is taxation reform. Bergman (2003) added that the ratio of voluntarily tax compliance determines the success of tax policy. Furthermore, tax compliance has a significant impact on government revenue from tax and increase the taxpayer commitment to the progress of the nation. Thus the government must give all necessary effort to motivate taxpayer to comply (Oluyombo and Olayinka, 2018).

Tax compliance affects the tax-to-GDP ratio, apart from macro factors such as tax tariffs, per capita income and good governance (Prasetyo, 2016). Tax-to-GDP ratio is a formula to measure taxation performance by comparing between tax income and GDP within a specified period, generally in one year. It is common to use the tax-to-GDP ratio to measure the optimisation of tax administration capacity in a country to collect tax revenue in a country. In other words, the higher the tax-to-GDP ratio of a country, the more optimal its tax administration capacity in collecting tax revenue. Figure 1 shows this connection between tax reform, tax compliance, tax-to-GDP ratio and tax revenue collected.

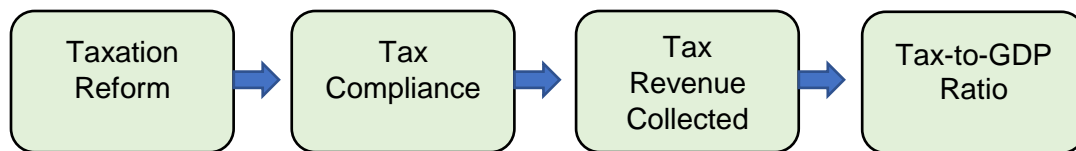


Figure 1: Taxation reform, tax compliance, tax-to-GDP, and tax revenue connection (Adapted from Bergman, 2003, Oluyombo and Olayinka, 2018, Prasetyo, 2016)

Since the first time tax was introduced as an instrument of a government in collecting revenue, many countries have had taxation reform. Most of the countries which have a taxation reform were developing countries since tax is a matter for development. Tax is a very significant factor for development in developing countries because it provides a sustainable basis for development and reduces their dependency on aid. The International Monetary Fund (Stotsky, 1995) described an ideal tax system for developing countries as follows: First, heavy reliance on a broadly-based single tax such as a Value Added Tax (VAT). Second, no dependency on export duties. Third, depending on tax for imported goods to protect domestic sales tax. Fourth, a simple tax administration for personal income tax to improve personal taxpayer's tax compliance. Last, a corporate income tax which levied at one moderate-to-low rate.

Planning a taxation reform is not an easy task; it requires in-depth research on what goals the taxation reform aims, how to start the reform, and how to achieve the taxation reform goals. Many countries failed in achieving their taxation reform's goals because of lack of planning. Ahmad and Stern (1991, cited by Islam, 2001) specified five guiding principles for taxation reform. First, lump-sum taxes and transfer should be used to increase revenue and transfer resources. Second, concern on one tax tools in isolation from what is happening elsewhere in the tax system can be misleading. Third, indirect taxation should focus on final consumption. Fourth, indirect taxes should be guided by a trade-off between efficiency and equity. Fifth, the corporate income tax lies in taxing foreign incomes and monopoly rents.

## 2.4 Tax Compliance

To have an understanding of whether a tax reform needed is by measuring taxation by some measurements and see whether their tax regulation is efficient enough in

collecting tax revenue. The tax compliances ratio can be used to measure the efficiency of a taxation system in a country. Sommerfield (1994) described tax compliance as the taxpayer responsibility in submitting their annual tax return and reporting their all annual incomes accurately in line with the self-assessment system. James and Alley (2002) defined tax compliance as the willingness of individuals and other taxable entities to act under tax law and administration without the application of enforcement activity. More simply, James and Alley illustrated tax compliance as the degree to which taxpayer comply with the tax law. Based on government perspective, tax compliance is the reliance of a tax institution on their taxpayer to assess the correct amount of tax on their returns voluntarily, file those returns correctly, and timely pay the tax due (Manhire, 2015). From previous definitions, tax compliance has five characteristics. First, it is based on taxpayer activity. Secondly, the taxpayer pays their tax debt. Third, the taxpayer files their tax report. Fourth, the taxpayer does it to adhere to the law. Last, the taxpayer does it voluntarily. However, it is not uncommon for half more of the potential tax revenues to remain uncollected (Bird, 1992 cited in Fjeldstad and Semboja, 2001).

It is quite reasonable to see a developing country with lower and tax compliances ratio than developed countries. According to Besley (2013), in the development process, the government not only increase the levels of taxation but also undergo pronounced changes in patterns of taxation, with growing emphasis on the broader tax base. Tax compliance is essential since the success of tax policy relies significantly on the degree of voluntarily tax compliance (Bergman, 2003), and improvement on the tax compliance level is a sign of tax revenue collection growth. The taxpayer does not like to pay taxes, and they do various kind of action to reduce their tax liabilities (Alm, 1999). He added that taxpayer's effort to reduce tax liabilities is classified as tax avoidance, a legal tax liabilities reduction by practices in taking advantages of the tax code and tax evasion an illegal and intentional action by the taxpayer to reduce their legally due tax obligations

However, not all of the taxation reform had a happy ending result. Some countries manage to have a steady increase in tax compliance, while others had a taxation reform effect just for a moment with a temporary increase in tax compliance and then back to the pre-taxation reform situation. Chile, with its taxation reform programmes, had successfully improved their tax compliance. This success was illustrated in its tax revenue steady

increase since 1974, despite some fluctuations due to the 1982 economic crisis (Bergman, 2003). Bergman argued that the success of taxation reform in Chile was caused by two significant factors, tax institution and tax policy. According to him, the crucial aspect of the 1984 taxation reform in Chile was the development of Servicios de Impuestos Internos (SII), Chile's tax agency. During this period, Chile had an improvement in its tax registration, tax inspection capacities, information system, and professional team of administrators. The development of SII resulted in a modernised tax agency with a capability to a quick adjustment to new and complex matters. Furthermore, Chile concentrated in horizontal tax equity to generate redistribution of wealth over public spending than tax system (Bergman, 2003). The taxation reform enhanced Chile's tax compliance ratio to 60 per cent and succeeded in increasing Chile's tax revenue significantly.

Argentina had a successful taxation reform from 1990 to 1992 in which the taxation reform tackled the administrative aspect of tax collection aggressively (Bergman, 2003). He argued that strict enforcement of a unified taxpayer registration code, the simplification of tax return, massive computerization, and new tax regulation regarding tax evasion had improved the VAT compliance to fifty per cent. However, according to Bergman, tax compliance improvement in Argentina was temporary and did not manage to sustain. A decline in tax compliance was begun since 1993 and increased the level of tax evasion. Bergman claimed that the tax compliance reduction in Argentina was caused by the traditional non-compliant taxpayer who managed to adjust with the tax regulation. Since 1993, the behaviour of the taxpayer was back to pre-taxation reform 'culture'.

## 2.5 Indonesian Taxation Reform

Indonesian taxation reform in 2008 was not the only taxation reform that ever happened in Indonesia. The first significant taxation reform in Indonesia occurred in 1984. The biggest revolution in the 1984 taxation reform was the implementation of the self-assessment tax system. Self-assessment taxation system is a system when each taxpayer is given authorities by the government to calculate, pay, and file their tax obligation by themselves (Law on General Provisions and Tax Procedures, 2015). In self-

assessment system, the government act as the supervisor of the taxpayer and do not issue a notice of tax assessment, unless the taxpayer failed to pay their tax debt and file their tax report. The primary goal of the taxation reform in 1984 was to have independence in funding national development from internal potential by improving revenue from taxes and other sources apart from oil and gas income (Suhardjito).

At the same time, the VAT regulation was imposed for the first time and took over sales tax and turnover tax with a single rate of 10 per cent of the goods or the services price without any exemption. The VAT regulation was valid for every purchase of products and services in Indonesia for domestic consumption by every citizen and paid by the consumer. The VAT was officially started in April the 1<sup>st</sup> 1985 with the issue of the first VAT regulation in Indonesia, constitution number 8 1983 about the VAT and sales on luxury goods. To simplify the VAT system, small business was exempted from registering requirement of the VAT payments. Moreover, the 1984 taxation reform established three types of tax office: District Tax Office (KPP), Land and Building District Tax Service Office (KPP PBB), and Tax Audit Office (Karikpa).

To improve both foreign and local investment, Indonesia decided to have another Taxation Reform in 1994. During the taxation reform in 1994, Indonesian Government impose several tax policies such as a decreasing the income tax rate, income tax incentive in going public companies, broadening the income tax base, broadening VAT objects, and increasing the non-taxable base price for land and building tax. Indonesian Government also imposed a tax policy about taxation facilities. Taxation facilities is a tax policy that allows the taxpayer to have a tax reduction or even tax annulment for excuses which are listed in the tax regulation. The taxation facilities were given to the taxpayer who had an investment in certain sectors or specific areas. The taxation facilities were given for economic sectors that became a national priority to improve Indonesian export. Taxation facilities were also given to taxpayer who invests in undeveloped areas, especially in the east of Indonesia, to improve its development (Bawazier and Kadir, 2004).

Another taxation reform happened in 1997 with a significant addition in taxation regarding land and building. It was the first time the Indonesian government proposed tax regulation regarding taxation in obtaining land and building was released called



acquisition duty of right on land and building tax (Bawazier and Kadir, 2004). The implementation of the acquisition duty of right on land and building objective was to improve state revenue since the number of transactions related to land and building was increased.

A study regarding tax compliance in Indonesia was contributed by Rahman (2017), who reviewed tax compliance in Indonesia based on the role of public officials. He argued that tax compliance in Indonesia had a problem with the lack of trust on tax authorities. Lack of trust to the tax authorities was caused by the high level of corruption in Indonesia. The fact that Indonesian citizen had a problem with their trust in the government gave a negative impact on the tax compliance level. Rahman opinion was supported by Pratomo (2018) who investigated the tax compliance behaviour of large businesses in Indonesia. He argued that a lack of trust in government would cause cautiousness among taxpayer for being transparent in revealing information.

The Indonesian tax system was another factor that affects tax compliance. Rahman (2017) declared that the tax compliance ration among them was less than eighty per cent, higher than overall tax compliance, which was less than sixty per cent. According to him, there was dissatisfaction among public officials with the Indonesian tax system which caused. Improvement in the tax system would have a positive impact on tax efficiency and bring sustainability (Ikhsan, 2005).

The budget allocated by the Indonesian Government for basic need such as education and health were relatively small compared to another country. In 2001, only 11.59 per cent of government expenditure was allocated for education, less than other countries in South East Asia such as Malaysia, Thailand and Singapore who spent 24.35 per cent, 24.24 per cent and 19.47 per cent respectively on the same year ([www.data.worldbank.org](http://www.data.worldbank.org), 2019). Public provision of public goods by the state affect tax compliance and issues regarding public goods' provision by the state play a significant role (Rahman, 2017)

Another factor that impact tax compliance in Indonesia was the tax institution and tax officer which related to the uncertainty. Uncertainty in Indonesian taxation associated with the issue of the clarity of regulations and tax officer behaviour, which is the result of insufficient expertise, loosely-applied standards and inefficient oversight (Pratomo, 2018).

These issues influenced taxpayer perception for unfairness and being mistreated by the tax official, which affected the tax compliance level in Indonesia.

This thesis was designed to fill in the gap among studies regarding the tax compliance ratio in Indonesia. The previous studies about tax compliance in Indonesia were about tax compliance in large businesses, tax compliance among public officials as a taxpayer and tax compliance from tax investigation policy. Thus, this thesis will try to contribute to explaining the impact of Taxation Reform in Indonesia on the tax compliance level of all taxpayer in Indonesia and the main factors that impacted it.

### 3 Theoretical Review

Tax influence ratio is not only affected by the taxation factor. The overall economic condition and the government itself, influence the tax compliance ratio as well. Figure 2 shows influential factors to the tax compliance level. These factors affect tax compliance level in Indonesia for both personal taxpayer and corporate taxpayer.

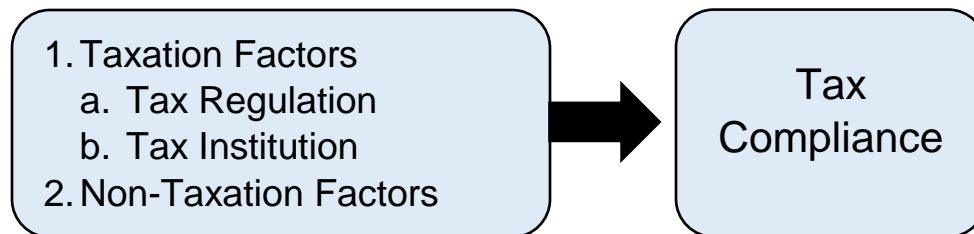


Figure 2: Factors that influence tax compliance (Based on Ortega et al., 2013, Fjeldstad and Semboja, 2001, Alm, 1999, Becker, 1967, Pratomo, 2018, OECD, 2013, Morris and Klesner, 2010, Hutagaol et al., 2007, Alm, 2018, Crane and Nourzad, 1992)

#### 3.1 Taxation Factors

The main factors that need to be amended when a country has a taxation reformation are tax regulation and tax institution. Tax regulation is the critical factor since it regulates some factors that influence tax compliance ratio the most, such as tax tariffs, tax obligation, tax due, and tax penalty, while the effectivity improvement of the tax institution is critical for tax compliance. It is essential for the tax institution to have a favourable judgement from the taxpayer and have a system and structure that fully support the taxpayer to comply with their tax obligation.

##### 3.1.1 Tax Regulation

Increasing tax rates in taxation can be described as a double-edged sword policy. Higher tax rate decreases tax compliance (Alm, 1999). However, higher tax rates would raise the tax revenue (Beck, Davis, and Jung 1991, cited in Alm 1999). Crane and Nourzad (1992, cited in Alm 1999) found that the tax evasion level increase once the tax rates rise. In term of the corporate taxpayer, an increase in the tax rate is more profitable for them to seeks ways to lower their effective rates, this will make them less compliant (Downs and Stetson, 2014).

Law enforcement means a human behaviour to ensure that the society member follows the laws and regulations of society applied. In terms of tax, regulation means the

taxpayer adheres to the tax regulation imposed by the government and for those who failed to fulfil that rules will be given a penalty. Firm law enforcement from tax collectors would induce tax evasion and tax avoidance (Fjeldstad and Semboja, 2001, Becker, 1967, Allingham, 1972). According to the Internal Revenue Service, USA (1978), the individual taxpayer in the United States paid taxes because they were afraid of being caught if they did not pay taxes. However, law enforcement is inadequate without punishment for the lawbreaker.

The threat of punishment is another crucial factor in reducing illegal behaviour. In the context of taxation, the threat of punishment is a coercive force to encourage the taxpayer to comply by imposing penalties (Pratomo, 2018). Allingham and Sandmo (1972) argued that the taxpayer is a rational citizen who will maximise their ability so that penalties can be used as a tool to force them to comply.

### 3.1.2 Tax Institution

Organisation structure and tax officer, according to Hutagaol et al. (2007) influenced the tax compliance of a society. He interpreted the organisational structure as the tax institution's organisational structure and employees as the tax institutions employees ability in giving service to the taxpayer and their knowledge of tax regulation. He argued that tax institutions supposed to be structured with service orientation to the taxpayer. Furthermore, he urged the tax office not only give excellent service to the taxpayer but also monitored the taxpayer compliance, and the tax officer was bound to the code of conduct.

Law enforcement and the threat of punishment are related to the opportunity to do tax evasion and tax avoidance. Employees taxpayer had fewer opportunities in evading taxes compare to the self-employed taxpayer (Fjeldstad and Semboja, 2001). Opportunity to do tax evasion and tax avoidance is also related to the number of tax officer and tax office. Less number of tax officer and tax office who can control the taxpayer's tax payment and tax report will decrease the tax compliance. Opportunity is also related to the ease of the taxpayer to access tax system. The easier the tax system can be obtained, the higher the tax compliance will be. Easy access to the tax system means the taxpayer can access information regarding taxation, pay their tax debt, file their tax report and have

tax return efficiently. To improve tax compliance, the Government is not only mandatory to provide a simple tax system, but also educate its taxpayer on how to utilise it.

OECD (2013), claimed that educated individuals have positive attitudes towards paying taxes. They were more compliant with their tax obligation because they understand the importance of tax revenue for their country. More importantly, education related to their ability in understanding the tax system. The tax system is a mechanism which regulates the rights and obligations of the taxpayer (Pajak.go.id). The knowledge that taxpayer have about the tax system affect tax compliance (Alm, 2018). Sometimes the taxpayer do not understand the tax system applied since they are given a complex and uncertain tax system. Thus, simplicity in the tax system is essential, and it has a positive impact on tax compliance. Alm added that complicated tax system tends to a tax compliance reduction and an easy to understand tax system influence the taxpayer to pay their taxes. To have a simple tax system, the government not only have to simplify its tax regulation but also provided up to date facilities to support its taxpayer in paying and filing its taxes.

### 3.2 Non-Taxation Factors

Human is a social being. Their action, more or less, is affected by the action of another human in their surrounding. Alm (1999) argued that tax compliance is affected by social influence. He argued that the taxpayer recognised that their decision to pay taxes voluntarily might be followed by another taxpayer. Fjeldstad and Semboja (2001) strengthened Alm's opinion by stating that the compliance behaviour of a taxpayer may influence or be influenced by their environments, such as friends and families. Thus, if the taxpayer realised that people in his environment were evading taxes, it is more likely that he would follow his surroundings to do tax evasion. On the contrary, the social relationship might prevent taxpayer in evading taxes by warned them with social sanction once the taxpayer was discovered in evading taxes. Furthermore, Hannemann (1989, cited in Alm 1999) found evidence that tax compliance is affected by citizen's collective decisions and individuals' attitudes about the fair treatment they got from the government officials.

Taxpayer's compliance was affected by their satisfaction or dissatisfaction to the governments (Fjeldstad and Semboja, 2001). One of the government main jobs was satisfying its citizen by providing their need. The more goods and services offered by the government match with the citizen need, the more satisfy the citizen would be. Taxpayer's motivation in paying taxes will grow if they feel that the government served their interests (Oluyombo and Olayinka, 2018) and satisfaction within the citizen will motivate them to fulfil all their duties to the country which one of them is paying taxes. Even though the taxpayer who pays taxes does not get anything in return directly, it can be argued that they would have a good impression on the government. Fjeldstad and Semboja's argument was supported by Axelrod (1984, cited in Alm) who suggested that the decision of taxpayer to pay tax voluntarily relies on the taxpayer's receipt of government expenditures and Alm (2018), who stated that the taxpayer was willing to pay taxes voluntarily because they valued the services and facilities provided by the government.

Furthermore, a government which is seen by the citizen to be making good use of tax revenue collected from their people is related to with high levels of trust, and Government who act in a trustworthy manner have a positive impact on tax compliance (OECD, 2013). Based on public finance perspective, Hutagaol et al. (2007) explained that if the tax institution with the support of the government can prove that the tax collected from the citizen is managed correctly and accordingly to the taxpayer, desire would bring positive impact to tax compliance. Trust to the government was affected by the corruption level of the country, and the lack of trust fed by corruption is considered critical for the government to influence its citizen in taking part of the countries development (Morris and Klesner, 2010). The high level of corruption decreased taxpayer trust to the tax institution, as they saw the tax institutions as a government representative in collecting their money to fund the country's development. Thus, it would give an adverse effect to the tax compliance and influence the taxpayer to do tax evasion and tax avoidance since tax evasion, and tax avoidance is caused by the suspiciousness of corruption in the government institutions (OECD, 2013).

Some of the factors above have more significant influence than the other in raising tax compliance ratio. The reason is that they gave a direct impact on how the taxpayer

can fulfil their tax obligation. These factors such as tax tariffs, tax system, punishment, tax officer and law enforcement affecting tax compliance ratio by providing more fair tax tariffs, more simple tax calculation and tax reporting, and firmer tax punishment.

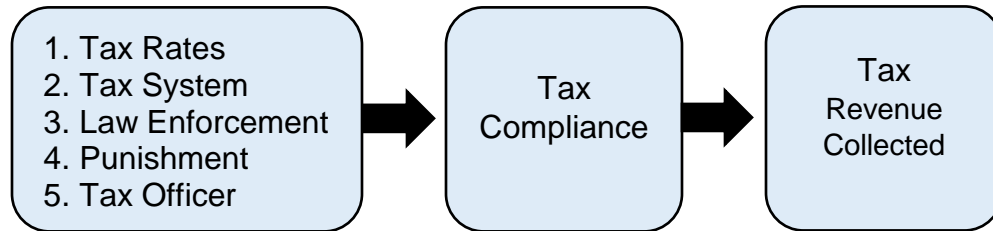


Figure 3: Factors that influence tax compliance the most (Based on Alm, 1999, Alm, 2018, Fjeldstad and Semboja, 2001, Becker, 1967)

## 4 Data and Methodology

### 4.1 Data

This section describes each data related to this thesis. All of the data are explained regarding their meaning, where the data were taken, the data calculation and their utility for this research. Most of the data were taken directly from DGT headquarter in Jakarta, Indonesia, between December 2018 and May 2019. The writer gathered the information for the period from 2002 to 2017. The reason why this period was used because the 2008 Taxation Reform in Indonesia was started in 2003 and ended in 2008 with the establishment of new tax regulation and new organisational structure of DGT.

All of the data gathered from DGT were provided from two out of fourteen directorates in DGT and DGT's Annual Report. A directorate is a department in DGT headquarter who work directly under the leader of DGT, the Director-General, and led by a director. These two directorates who provided the data were Directorate of Information Technology of Taxation (Direktorat Teknologi Informasi Perpajakan/Directorate TIP) and Directorate of Potential, Compliance, and Revenue of Taxation (Direktorat Potensi, Kepatuhan dan Penerimaan Perpajakan/Directorate PKP). According to DGT's website ([Pajak.go.id](http://Pajak.go.id), 2019), Directorate TIP's duties are formulating and implementing policy, and technical standardisation in information technology of taxation and Directorate PKP's duty are formulating and implementing policies and technical standardisation in potential, compliance and revenue of tax.

#### 4.1.1 Tax Compliance Ratio

The tax compliance ratio data is a comparison between taxpayer obliged to file their annual tax report to the number of taxpayer listed in the DGT database. The data of the number of taxpayer, both for personal taxpayer and corporate taxpayer, and the number of annual tax report received by DGT each year are acquired from the Directorate TIP of DGT, Directorate PKP of DGT and DGT's annual report.

#### 4.1.2 Public's Satisfactory Ratio

Public's Satisfactory Ratio is a ratio that shows the satisfaction level of the citizen to the government's performance. Several well-known surveys in Indonesia provided the



data and published in a famous mass media in Indonesia, such as Kompas. The survey is held monthly and annually.

#### 4.1.3 Tax Audit and Investigation Report

The tax audit report is the number of tax audit produced by tax auditor from every tax office in Indonesia in one year. The tax investigation report is the number of tax investigation provided by tax investigators from DGT's headquarter and every regional tax office in Indonesia in one year. The DGT's annual report provided the data of the tax audit and tax investigation report.

#### 4.1.4 Indonesia's Corruption Perception Index

Corruption Perception Index (CPI) is an index that shows how corrupt their public sectors are seen to be. The index uses a scale from 0 to 100, where 0 is highly corrupt, and 100 is very clean. The CPI data is collected annually and provided by Transparency International, a global civil society organisation leading the fight against corruption.

#### 4.1.5 DGT's Stakeholder Satisfaction Index

DGT's stakeholder satisfaction index is a survey that shows the satisfaction level of the taxpayer to the DGT. The surveys are held annually. The DGT's annual report provided the data of DGT's stakeholder satisfaction index.

#### 4.1.6 The Number of Tax Officer and Tax Officer Trained

The Number of Tax Officer data shows the number of employee works on DGT annually. The Tax Officer Trained data shows the number of tax officer trained by the DGT or the Ministry of Finance. There was a possibility for a tax officer received more than one training in a year. The DGT's annual report provided the number of tax officer and tax officer trained data.

#### 4.1.7 The Number of Taxpayer Using eSPT and eFiling

The Number of Taxpayer who are Using eSPT and eFiling is the number of a taxpayer who utilises eSPT and eFiling in a year. The data are for both personal taxpayer and corporate taxpayer. Before 2016, the only taxpayer who was able to use eFiling is the personal taxpayer. The DGT's annual report provided the number of taxpayer using eSPT and eFiling data.

## 4.2 Methodology

This thesis uses a qualitative method to get insights on the impact of the taxation reform in 2008 to the tax compliance level in Indonesia and what factors that affect tax compliance in Indonesia.

### 4.2.1 Calculation of Tax Compliance

In measuring the tax compliance ratio, some author compares the total tax burden and overall GDP. However, Bergman (2003) argued that the measurement is potentially misleading since it does not portray distortions and differences in the tax structure of each different countries. To examine two countries with different tax structure, Bergman (2003) was using three different measurements of compliance. First, the Productivity Index of Value Added Tax (PVAT) method. This method measures the output of each percentage point of the tax rate as a share of GDP because the tax base and the tax rates have a significant impact on the level of productivity for compliance. Second, Compliance Coefficient (CC) method. This method that is used by the IMF calculates the national account's total tax base in the beginning. After the tax base is estimated, it is multiplied by the tax rates. The result of the multiplication was the potential VAT revenues to be collected. The disparity between potential and actual revenue creates the tax gap. Third, Index of tax agency efficiency or net voluntary compliance (NVC) method. This method calculation includes the impact of VAT exports reimbursement and VAT collected in customs from imports.

The calculation of tax compliance in this thesis refers to the number of taxpayer, both personal and corporate taxpayer, who file their annual tax report on time, as shown in figure 3. In Indonesian taxation, to be able to record the tax report, the taxpayer should have paid their tax debt and submit the tax payment receipt along with the tax report. A taxpayer is personal or company or government treasurer, registered in DGT's database, with taxation rights and liabilities accordingly with tax regulation. However, not all taxpayer is mandatory in filing their annual tax report. There are non-effective taxpayer, a taxpayer with no obligation in submitting any tax report. A taxpayer can be categorised as a non-effective taxpayer if the taxpayer is a personal taxpayer who is not working and receive any income anymore or corporate taxpayer with no activities at all and receive any income

anymore. In calculating the tax compliance ratio, the number of taxpayer refers to the taxpayer who are mandatory to file their tax report.

$$\text{Tax Compliance Ratio} = \frac{\text{Number of Annual Tax Report Received}}{\text{Number of Taxpayer}} \times 100\%$$

Figure 4: Tax compliance ratio's formula

#### 4.2.2 Thesis Limitation

This thesis has some limitations that imply further study regarding tax compliance in Indonesia. The limitations are: first, this thesis analyses the tax compliance ration based on the number of the taxpayer who files their annual tax report. Yearly tax report in Indonesia report about the taxpayer income and their tax income, thus the only taxes that were included in the tax compliance ratio in this thesis is only tax income. This study does not include VAT compliance.

Second, tax revenue in this thesis refers to tax revenue that is collected by the DGT which are income tax, VAT, Sales Tax on Luxury Goods and Land and Building Tax (PBB) from the mining area, plantation area, and forestry area. However, several taxes in Indonesia are collected by the regional government such as PBB for other areas apart from the mining area, plantation area, and forestry area, restaurant tax, entertainment tax, vehicle tax, and advertisement tax.

## 5 Empirical Analysis

### 5.1 The Taxation Reform Impact on the Tax Compliance

The first question of this thesis is *how has tax compliance changed with the Taxation Reform*. This section will describe the changes in tax compliance level in Indonesia since the '90s.

#### 5.1.1 Indonesian Taxation during the Taxation Reform

Before the taxation reform in 2008, the condition of Indonesia's taxation was not its top performance. Between 2003 until 2007, most of the annual tax revenue collected was below the target appointed by the government, as shown in figure 5. The only year that the annual tax revenue collected surpassed the target was in 2004 when the DGT succeeded in collecting Rp238.644,5 billion, 100.02 per cent of the target.

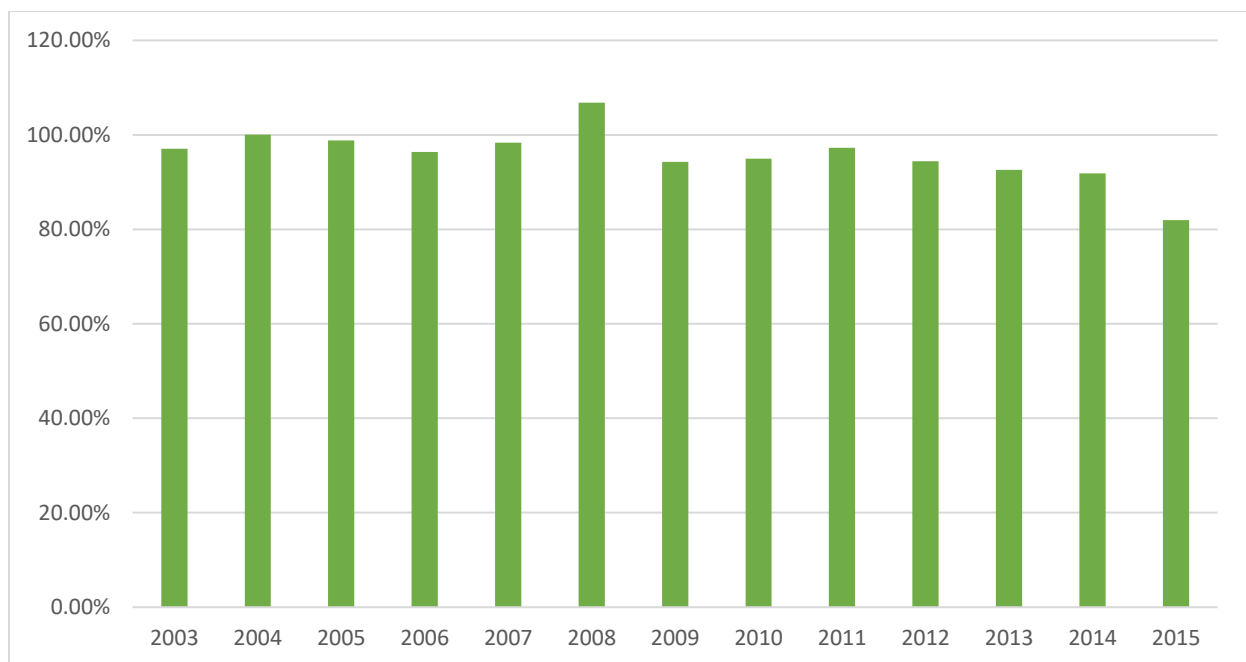


Figure 5: Indonesian annual tax collected ratio 2003-2007 (Directorate of Potential, Compliance, and Revenue of Taxation, DGT, 2019)

The low level of tax-to-GDP ratio worsened the condition of Indonesian taxation, and tax compliance ratio compares to other countries. In 2001, the Indonesian tax-to-GDP ratio was 11.58, quite a low ratio to compare with Malaysia, Thailand, and Vietnam, in which their tax-to-GDP ratio was 17.48 per cent, 13.07 per cent and 18.72 per cent respectively (World Bank, 2019). The tax-to-GDP ratio for the next five years, even though

it had a sign of increasing, were left behind compared to Malaysia, Thailand, and Vietnam, as shown in figure 6.

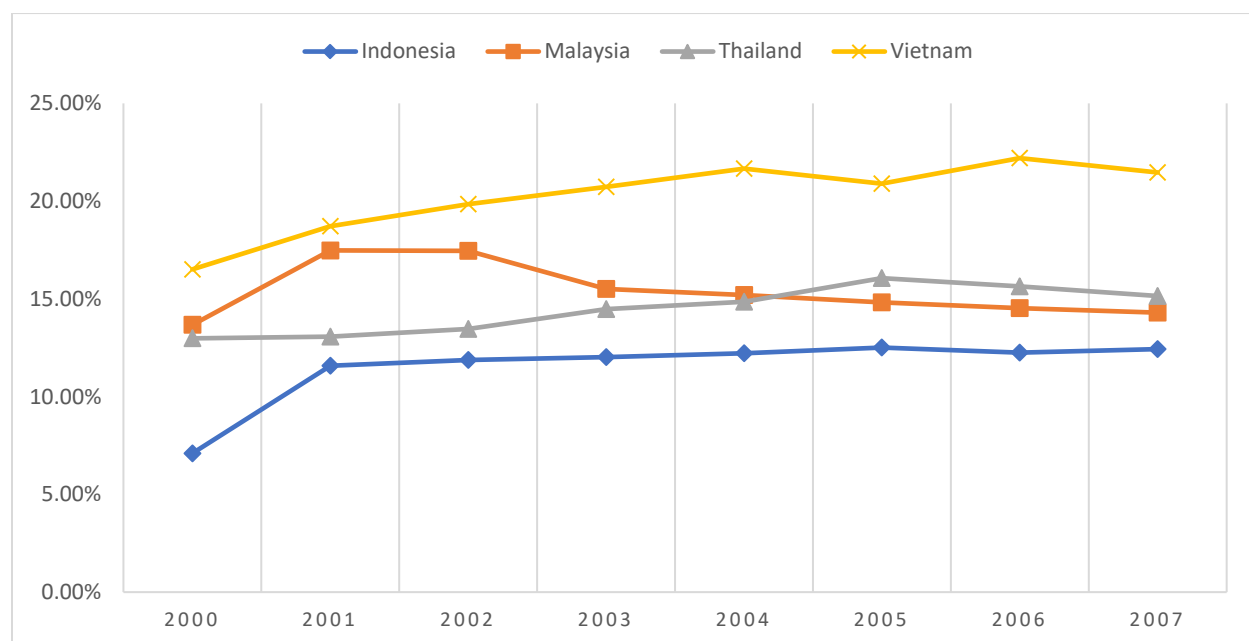


Figure 6: The tax-to-GDP ratio of Indonesia, Malaysia, Thailand, and Vietnam 2002-2007 (Directorate of Potential, Compliance, and Revenue of Taxation, DGT, 2019, The World Bank Data, 2019)

The ratio of tax compliance in Indonesia was also left behind with other developing countries such as Chile and Argentina. The Indonesian compliance ratio in 2001 for both corporate and personal taxpayer was only 37.34 per cent, and in the next few years did not show any significant increase. From 2.781.559 taxpayer, only 815.985 of them file their annual tax report. Argentina, after its successful tax reform in 1990-1992, managed to have a more than 60 per cent of tax compliance ratio. Chile, on the other hand, had its third major taxation reform in 1990 after the inauguration of the civilian government managed to have more than 70 per cent tax compliance ratio between 1991 until 1999 (Bergman, 2003). Based on Chile and Argentina's experienced, it makes sense for the Indonesian Government decided to have taxation reform to improve its tax compliance.

### 5.1.2 The transformation of Tax Compliance Ratio in Indonesia

The tax compliance in Indonesia ratio is the ratio between the number of taxpayer obliged to file their tax report to the number of tax report received by DGT in a year. Based on the previous statement, tax compliance is calculated by two items, the number of the

taxpayer and tax report. The number of the taxpayer in Indonesia is fluctuated every year, impacted by the increasing number of the labour force and new company established and the number of tax report received by DGT is affected by several factors that will be discussed later. The Taxation Reform in Indonesia which was initiated from 2001 and completed in 2008 has transformed the tax institution, DGT, and two tax regulations, Law on General Provisions and Tax Procedures and Law on Tax Income. The transformation in tax institution and tax regulation affect tax compliance in Indonesia, both for personal taxpayer compliance and corporate taxpayer compliance. This section illustrates the progress of tax compliance both for the personal and corporate taxpayer and overall tax compliance.

#### 5.1.2.1 Personal Taxpayer

When the taxation reform was initiated in 2001, the number of personal taxpayer obliged to file their tax report was less than 1.5 million people. During the taxation reform, the government was planning to improve the number of Taxpayer Identification Number (Nomor Pokok Wajib Pajak/NPWP). When the taxation reform was completed in 2008, DGT managed to enhance the number of a personal taxpayer by 240 per cent. The improvement number of personal taxpayer affect the amount of personal tax report received by DGT. By the time the taxation reform is completed, the number of personal tax report received increased 77.7 per cent. Figure 7 shows the number of personal taxpayer obliged to file a tax report and the number of tax report received. The personal taxpayer's tax compliance shows fluctuation during the taxation reform and had a sharp increase after the taxation reform was done. Based on figure 8, it can be seen that the taxation reform have a significant impact on personal taxpayer compliance. In 2009, a year after the taxation reform, personal taxpayer compliance increase 23.37 per cent. Even though the compliance ratio was decreased in 2011, the reduction was caused by a sharp increase in the number of personal taxpayer. It is predicted that the decrease in tax compliance was created by the new taxpayer who has not filed their taxpayer.

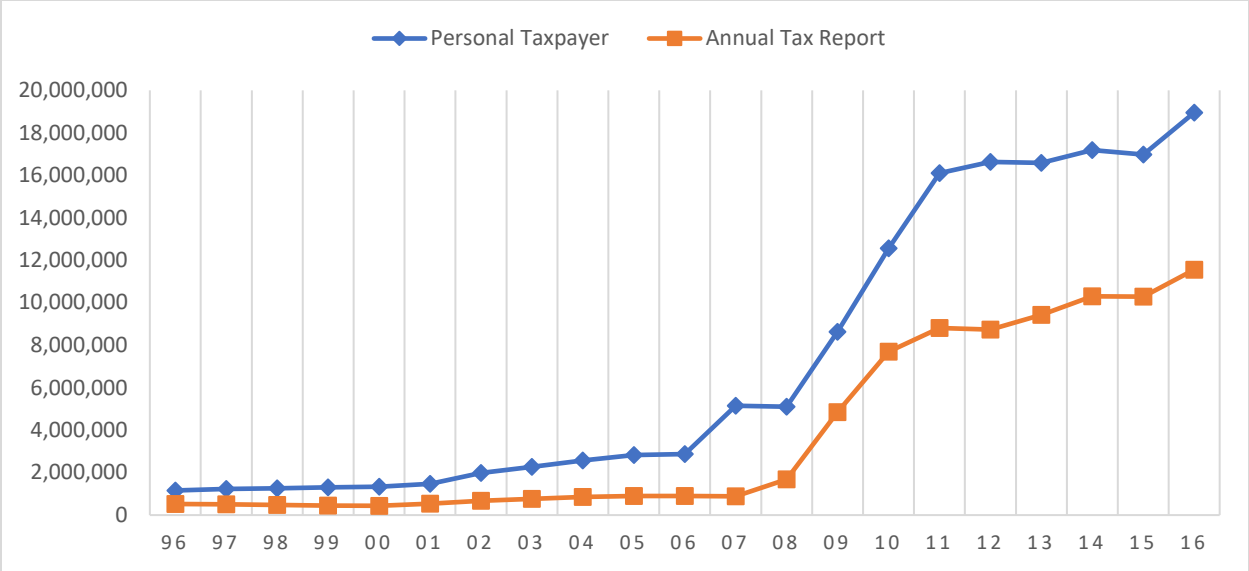


Figure 7: Number of personal taxpayers obliged to file tax report and number of tax report received by DGT (DGT Annual Report 2007-2016, Secretariat General, Indonesian House of Representative, 2010)

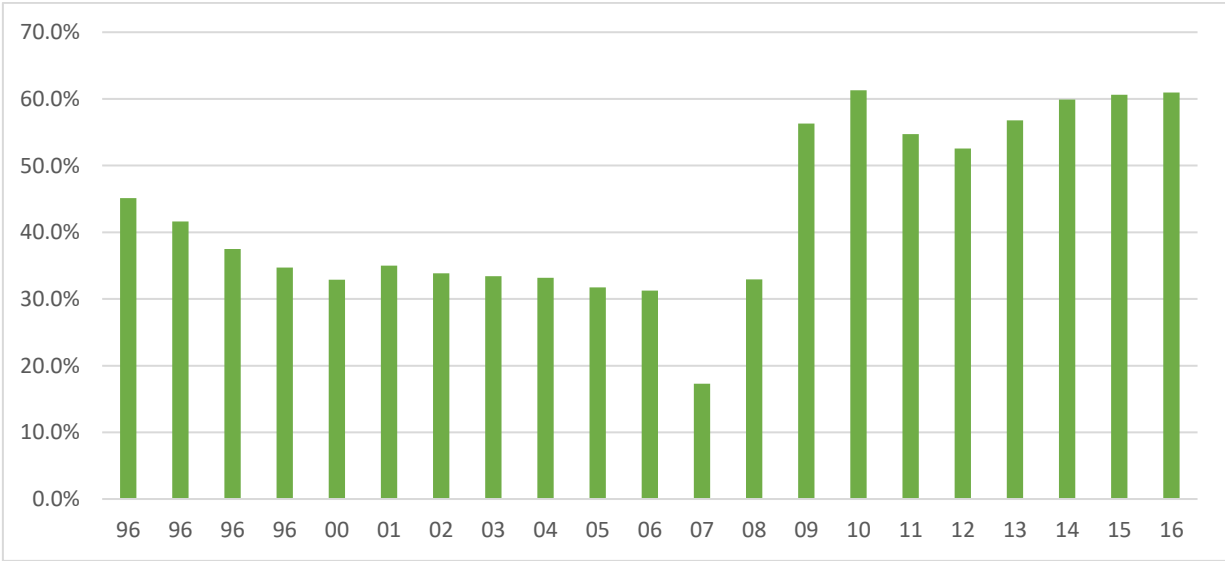


Figure 8: Personal taxpayer tax compliance ratio 1996-2016 (DGT Annual Report 2007-2016, Secretariat General, Indonesian House of Representative, 2010)

5.1.2.2 Corporate Taxpayer

In 2001, the number of corporate taxpayers obliged to file a tax report was 715.571. At the end of taxation reform, the corporate taxpayer had increased by 74.1 per cent. The increasing number of the corporate taxpayer from 2001 to 2008 improve corporate tax report received by 51.84 per cent. Based on figure 9, it can be seen that the tax compliance of corporate taxpayer between 1996 until 2008 shows a downturn trend. However, the corporate taxpayer compliance had an increase in 2009 before it decreased

by 8.1 per cent in 2010. DGT managed to have 15.71 per cent increase in corporate taxpayer compliance and became flat for the next two years. It can be seen that the taxation reform had a temporary effect on corporate taxpayer compliance since the growth only lasted for a year. The sharp increase of the corporate taxpayer compliance in 2012 was caused by the reduction of the number of corporate taxpayer since the number of tax report in 2012 was decrease compared to 2011.

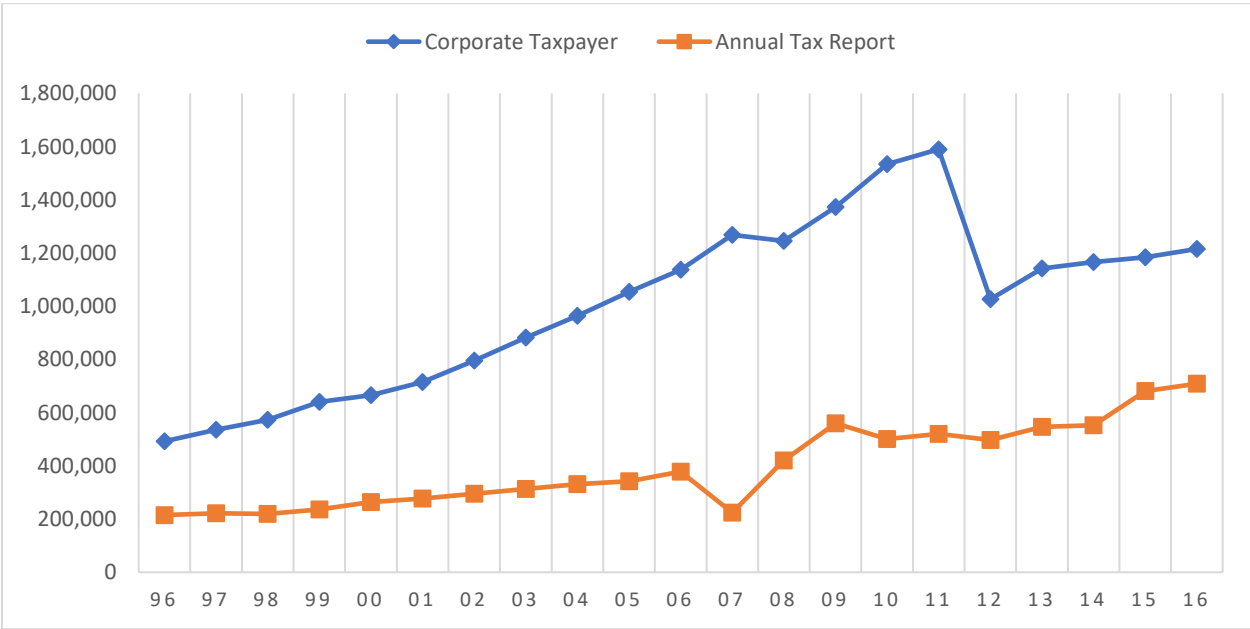


Figure 9: Number of corporate taxpayers obliged to file tax report and number of tax report received by DGT (DGT Annual Report 2007-2016, Secretariat General, Indonesian House of Representative, 2010)

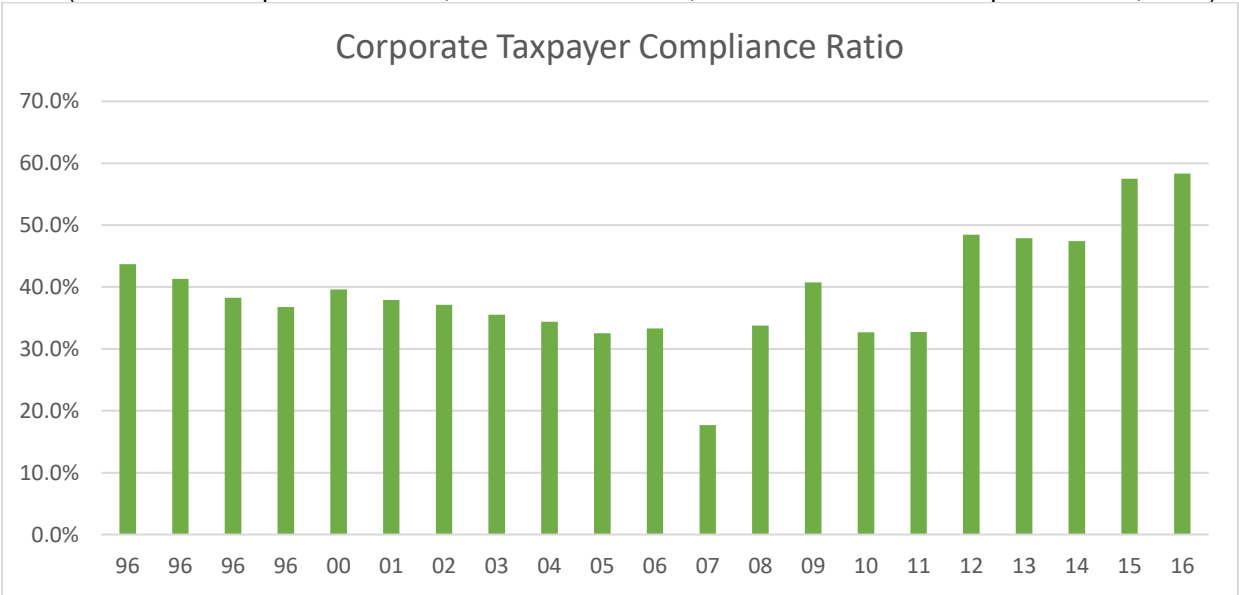


Figure 10: Corporate taxpayer tax compliance ratio 1996-2016 (DGT Annual Report 2007-2016, Secretariat General, Indonesian House of Representative, 2010)



### 5.1.2.3 Tax Compliance of All Taxpayer

Figure 11 shows that the taxation reform had a significant impact on the overall tax compliance ratio. Once the taxation reform had finished in 2008, the tax compliance rose 63.69 per cent and 7.41 per cent in two years. Even though the tax compliance ratio decrease in 2011 and 2012 due to the sharp rise in the number of personal taxpayer, the tax compliance ratio had a positive trend from 2013 to 2016.

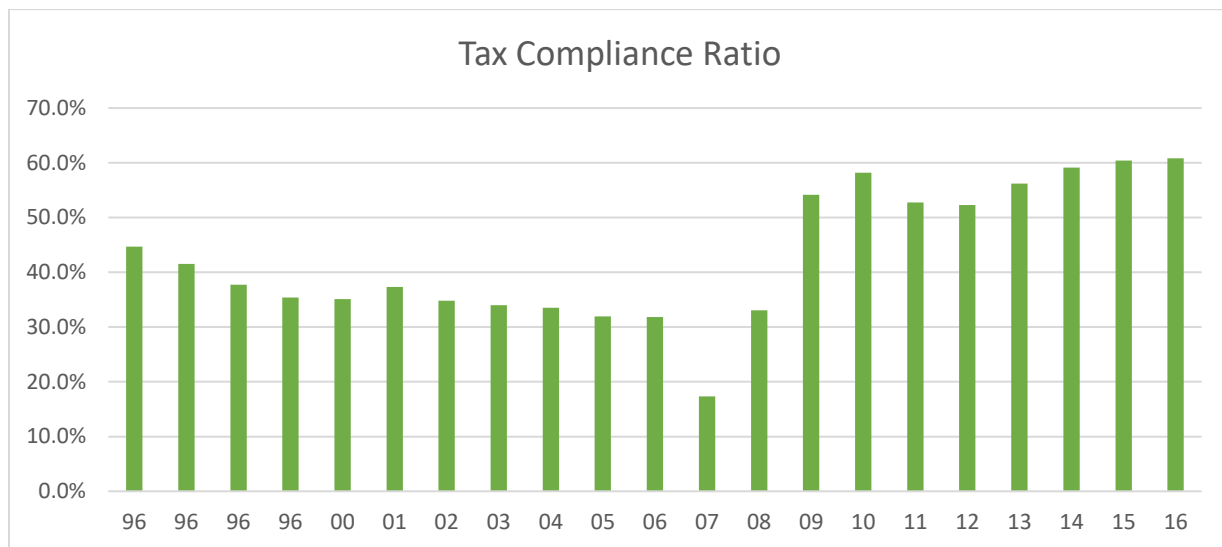


Figure 11: Tax compliance ratio 1996-2016 (DGT Annual Report 2007-2016, Secretariat General, Indonesian House of Representative, 2010)

## 5.2 Factors that Influence Tax Compliance in Indonesia

The part of the thesis tries to tackle the question of ***what has influenced the change of the compliance level in Indonesia after the taxation reform.*** Hence, this section will describe several factors that affect tax influence ratio either from the taxation factor and non-taxation factor.

### 5.2.1 Taxation Factors

#### 5.2.1.1 Tax Regulation

The taxation reform in 2008 amended two taxation regulation. These regulations were Law on General Provisions and Tax Procedures and Law on Income Tax. The transformation of these regulations not only focused on improving the law enforcement by adjusting tax rates and regulating firmer tax punishment for tax evasion and avoidance

but to adapt with the transformation of the business system in Indonesia and information of technology as well.

Law on General Provisions and Tax Procedures is a taxation regulation that applies in every tax law unless the tax law itself has its rule about general provisions and procedures. The amendment was started by the issue of Law Number 28 the Year 2007, replacing Law Number 16 the Year 2000. The amendment of Law on General Provisions and Tax Procedures was intended for improving services, legal assurance and fairness; simplify the tax administration and adapt to the transformation of social economy and information of technology.

Law on Income Tax is a regulation which regulates tax income for both personal and corporate taxpayer in Indonesia. The amendment was started by the issue of Law Number 36 the Year 2008, replacing Law Number 17 the Year 2000. The amendment of Law on Tax Income was intended to improve self-assessment system by enhancing the tax report and tax payment system and improve fairness in tax income by broadening the tax subject and tax object. The amendment of these tax regulation change the tax rates, tax law enforcement, tax penalty, and opportunity of the taxpayer to fulfil their tax obligation.

Tax rate reduction has a positive effect on tax compliance (Alm, 1999). To improve tax compliance and adjust to the inflation rate, the government decided to reduce the tax rate and improve the non-taxable income. The changes in the tax rates are as follows.

First, the corporate income tax rate reduction. The new Law on Income Tax reduces the income tax rate for the corporate taxpayer. The government reduced the corporate income tax to improve Indonesia's competitiveness in investing. Before the tax rate reduction, the corporate taxpayer had a progressive tax rate with a maximum rate of 30 per cent. With the new constitution, the tax rate was reduced to a single tax rate with 28 per cent in 2009, and 25 per cent started in 2010. With the reduction of the tax rate, the tax compliance ratio among corporate taxpayer was expected to be increased.

Second, additional income tax rate reduction for micros, small and medium-sized company. Micros, small and medium-sized company in taxation term is a company with annual income Rp 4.8 billion or less. A company with yearly income Rp 4.8 billion or less are given a 50 per cent tax rate cut. This policy is intended to support micros, small and

medium-sized company's development in Indonesia. The growth in micros, small and medium-sized company would reduce unemployment. The reduction of unemployment would increase the number of citizens that can be categorised as a taxpayer. The increasing number of taxpayer would give a positive impact on tax compliance.

Third, personal income tax rate reduction. The income tax rate in Indonesia has a progressive tax rate to reduce inequality in Indonesia. On the previous law on Income tax, the personal income tax rate was from 5 per cent to 35 per cent. The amendment of the income tax law reduces the personal income tax rate from 5 per cent to 30 per cent. Table 1 shows the personal income tax rate in Indonesia according to the new income tax law and the previous income tax law. The reduction of the personal income tax rate was intended to improve tax-saving among personal taxpayer and improve tax compliance.

Personal Income Tax Rate According to Law Number 36 the Year 2008	
Annual Income	Tax Rate
0 - Rp 50.000.000	5%
Rp 50.000.001 - Rp 250.000.000	15%
Rp 250.000.001 - Rp 500.000.000	25%
More than Rp 500.000.000	30%

Personal Income Tax Rate According to Law Number 17 the Year 2000	
Annual Income	Tax Rate
0 - Rp 25.000.000	5%
Rp 25.000.001 - Rp 50.000.000	10%
Rp 50.000.001 - Rp 100.000.000	15%
Rp 100.000.001 - Rp 200.000.000	25%
More than Rp 200.000.000	35%

Table 1: Personal taxpayer income tax rates (Law Number 36 the Year 2008, 2008, Law Number 17 the Year 2000, 2000)

Fifth, increase in the non-taxable income. Non-taxable income is a limit of the personal taxpayer wages that are not taxed according to the tax regulation. The inflation each year in Indonesia increased the cost of living. To alleviate the citizen financial burden, the government adjust the non-taxable income depend on the inflation rate. As shown in Table 2, the government adjust the non-taxable income almost every year.

Year	Non-Taxable Income	Married	Additional Children
2001-2008	Rp2,880,000	Rp4,320,000	Rp1,440,000
2009-2012	Rp15,840,000	Rp17,160,000	Rp1,320,000
2013-2014	Rp24,300,000	Rp26,325,000	Rp2,025,000
2015	Rp36,000,000	Rp39,000,000	Rp3,000,000
2016-2019	Rp54,000,000	Rp58,500,000	Rp3,000,000

Table 2: Non-taxable income 2001-2019 (Regulation of the Ministry of Finance 2001-2019)

According to Alm (1999), higher tax rate decreases tax compliance. The adjustment of the tax rate and the non-taxable income was expected to bring a positive impact on the compliance. The taxation reform in 2008 restructured Indonesian tax rate both for the corporate and personal taxpayer. The five per cent decrease in corporate taxpayer was expected to improve the willingness of corporations to fulfil their tax obligation. With fewer taxes to be paid, they can allocate those budget for their investment to develop their business. The development of their business will improve its business efficiency that will lead to income improvement and raise their taxes. The decrease of the personal taxpayer's rate will enhance the willingness of the society in paying tax since their tax payable is decreased.

The increase in the non-taxable income adjusted to the inflation rate in Indonesia illustrate the willingness of the government to accommodate the economic situation. Inflation without raise on personal income will reduce non-primary needs expenses. Thus, if the non-taxable income is not adjusted to the inflation rate, fewer people will have the ability to pay their taxes because they have less money allocated to non-primary needs expense. This condition will encourage the taxpayer to pay tax less than they have to pay. The reduction of the non-taxable income seems to decrease national tax income. However, this reduction would improve public consumption, which resulted in the improvement of the VAT income.

The positive impact is seen with the improvement of tax compliance with no less than 52 per cent tax compliance ratio since 2009 onward. The reduction of the tax rate for both personal and corporate taxpayer and a 450 per cent increase of non-taxable income was responded positively by the taxpayer.

Fjeldstad and Semboja (2001) stated that law enforcement affects tax compliance. Tax audit is a law enforcement action conducted by DGT. Tax audit is performed to test compliance in fulfilling taxpayer's obligation and other purposes for the implementation of

tax law and regulation (DGT Annual Report, 2010). The law enforcement by the DGT is shown by the increasing number of the tax audit report that was escalated. The law enforcement by DGT was also shown by the assignment of tax auditor and Account Representative (AR) in every tax office and the increase number of tax employee which will be explained further in the next section.

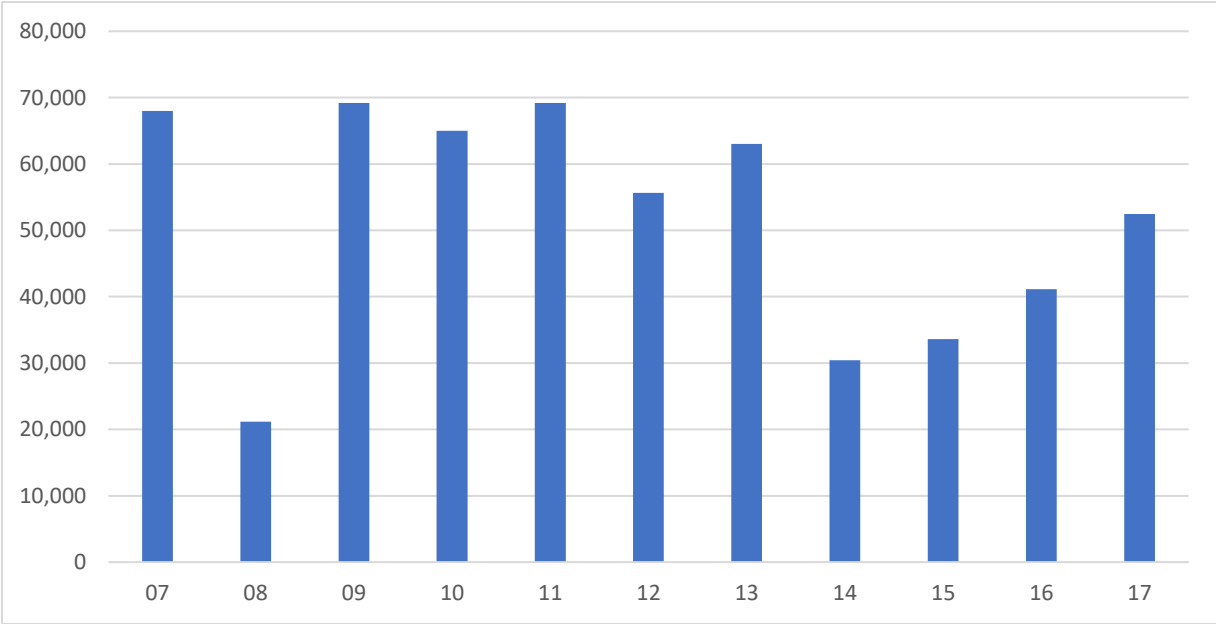


Figure 12: Number of tax audit report (DGT Annual Report, 2012)

The new tax law regulates tax data collection to support tax audit. On the previous tax law, there were no rules on how the DGT can collect data relate to taxation. On the new tax regulation, every institution, association and other parties are mandatory to hand in data and information related to taxation to DGT. Moreover, DGT has the full rights to collect additional data and information if the data and information obtained are not sufficient. Data and information are vital for tax audit in DGT. An adequate amount of data and information can reduce dispute between tax auditor and the taxpayer. Reduction in dispute between DGT and its taxpayer will reduce the cost of compliance.

Punishment is another way of improving tax compliance. To support law enforcement in taxation, the Government amended its tax regulations related to punishment. The tax penalty is valid for both corporate and personal taxpayer. The amendment is as follows. First, the tax rate for the taxpayer without NPWP. To improve the number of taxpayer registered in DGT and tax compliance, a taxpayer who does not have NPWP is taxed with a higher tax rate. A taxpayer without NPWP who received a

salary from a company gets tax rate 20 per cent or 100 per cent higher than a personal taxpayer with NPWP, depends on the transaction. Once the taxpayer owns an NPWP, the tax payment can be credited from the annual tax report. This regulation is imposed to improve the number of a taxpayer who is mandatory to file the annual tax report. Second, the penalty for overdue tax payment. The amendment regulated that for a corporate taxpayer who is not paying their monthly tax on time will be given a penalty. The penalty is two per cent per month with a maximum penalty of 48 per cent of the tax payable.

Third, the penalty for the late submission of the tax report. On the previous law, the penalty for the late submission of monthly and annual tax report was Rp 50.000 and Rp 100.000 for any of taxes. On the new law, the penalty for the late submission was Rp 100.000 for personal taxpayer's annual tax report, Rp 1.000.000 for corporate taxpayer's annual tax report, Rp 500.000 for monthly VAT report, and Rp 100.000 for corporate taxpayer's monthly tax report. The increase of the tax report penalty would influence the taxpayer to file their tax report on time. Hence, the rise of the penalty would increase tax compliance among the taxpayer. Fourth, the penalty for a taxpayer who files a faulty tax report on purpose. A taxpayer who reports a false tax report will be given a two hundred per cent penalty of the underpayment tax.

To comply with tax obligation is related to the opportunities available. The more simple methods provided by the government in submitting tax report would increase tax compliance. To simplify taxpayer's in filing tax report, DGT provides optional methods and time extension in filing a tax report

On the previous law, the submission of the tax report for both personal and corporate taxpayer was only valid for manual submission. By the introduction of electronic tax report, the new law allows the taxpayer to fill in, sign and file their tax report by manual or electronic tax report. New option on filing the tax report using online application will help a taxpayer in calculating and filing their tax report. Electronic and online application make filing tax report a lot easier since the taxpayer can submit their tax report anywhere and anytime. The convenience of filing tax report will influence the non-compliance taxpayer to report their tax report that will lead to the tax compliance ratio increase. It is proven with the rise of a taxpayer who is utilising electronic tax report to file its tax report.

To give the corporate taxpayer a chance to file a complete and correct tax report. The new tax law extended the due date on filing tax report from three months after the tax year-end, to four months. Furthermore, a corporate taxpayer who needs more time to file their tax report, they can submit a notification letter not later than four months after the tax year-end. The additional time provided for a corporate taxpayer in filing their tax report would improve the quality of the tax report itself. Moreover, the taxpayer has a longer time to comply. However, the new law did not change the due date for personal tax report submission. The deadline to file the personal taxpayer is three months after the tax year-end.

Also, to improve the effectivity of the tax employee on supervising taxpayer and increasing tax compliance. The new taxation law imposed regulation regarding the elimination of the Taxpayer Identification Number (NPWP). On the previous law, the elimination of the NPWP is not regulated yet. According to the 2008 Law on General Provisions and Tax Procedures, the taxpayer has the rights to submit their NPWP elimination request as long as themselves or their heir submits the submission and fulfil the requirements of the tax law. The taxpayer who can submit NPWP elimination request is personal taxpayers who are not working anymore or not operating their business anymore and receive no income, personal taxpayer who are already dead and corporate taxpayer who stops running their business in Indonesia. Once the taxpayer submits the request, DGT will do a tax audit on the taxpayer and issue a resolution in 6 months for the personal taxpayer and 12 months for the corporate taxpayer. With the NPWP elimination of the non-effective taxpayer will reduce the number of the taxpayer that need to be supervised by the tax officer. Thus, the tax officer can give more time to serve another taxpayer that is proven as an active taxpayer.

#### 5.2.1.2 Tax Institution

Apart from the government and tax regulation, tax compliance ratio is also influenced by the tax institution as well. The willingness of the taxpayer to do their tax duty is affected by the tax institution performance, service and system. Thus, the taxation reform in 2008 transformed the DGT as the tax institution in Indonesia. The DGT transformation covered

from the transformation of its headquarter and branches organisation structure, system, and employee.

The organisational structure of the tax institution affects tax compliance (Hutagaol, 2007). The ability of the DGT to satisfy its taxpayer and meet the taxpayer's need to have a positive impact on the tax compliance ratio. To improve its services to the taxpayer, DGT in 2010 launched its strategic map which two of the goals were a high level of taxpayers' satisfaction level on tax services and a high level of tax compliance. These goals were supported by the transformation on the DGT's structural organisation, which had changed the structure of the tax office based on the function.

The organisation transformation of DGT was not only happened in the headquarter office but in all of its branches as well. The organisation transformation in DGT was started with the establishment of Large Taxpayer Regional Office (Kanwil LTO) and its branches, Large Taxpayer Tax Office One and Large Taxpayer Tax Office Two, in Jakarta in 2002. Kanwil LTO and its branches were a pilot project for modern tax office in Indonesia, and their establishment as modern tax offices would be followed by the rest of tax office in Indonesia and the DGT's headquarter in 2006.

The DGT's headquarter as a parent organisation who manage tax collection in Indonesia were adapting developed countries tax institutions in shaping it's headquarter's organisational structure. The adaptation was meant to imitate their success in adapting to the globalisation era. The DGT headquarter does not act as an operational tax office which manages tax collection but operates as a policymaker, organisational development and transformation, and tax system development. Before the taxation reform, the DGT's headquarter consist of one secretariat of general, eight directorates, one centre of taxation counselling, and led by a Director of General, as shown in figure 13.



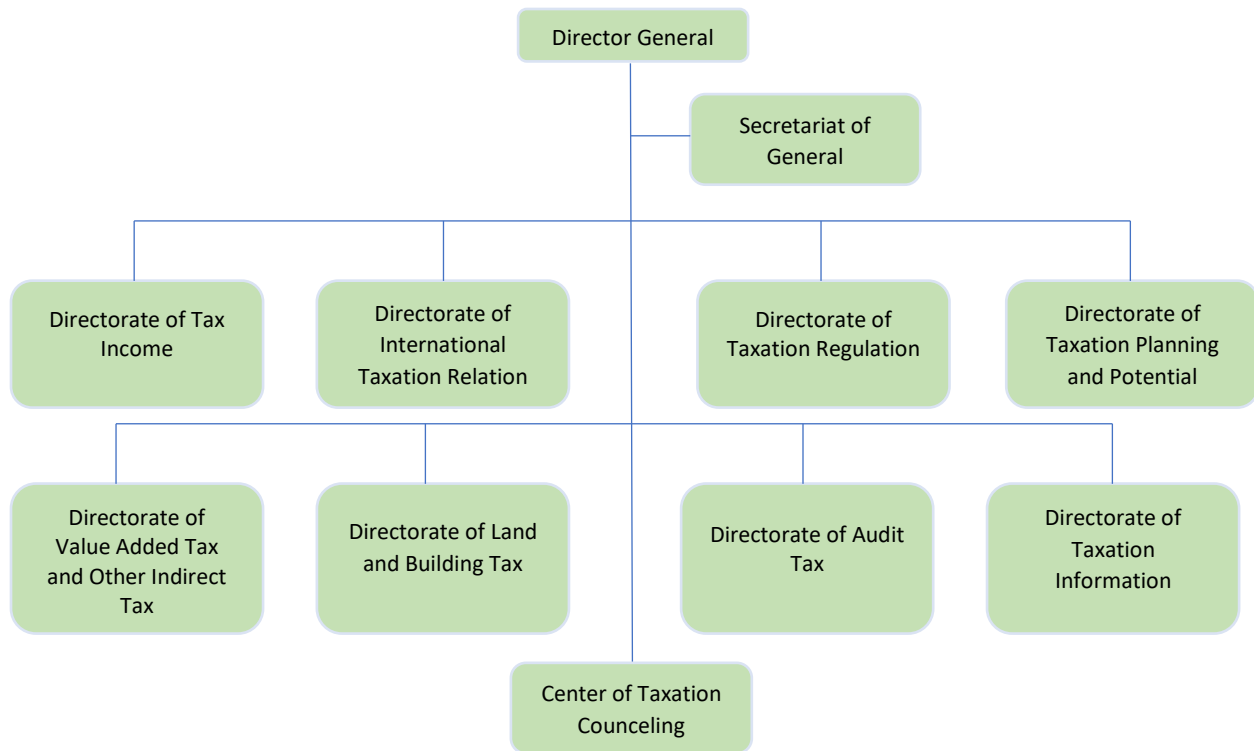


Figure 13: DGT headquarter's organisational structure before the taxation reform ([DGT's Official Website, 2019](#), President of the Republic of Indonesia Decree Number 2 the Year 1995, 1995)

The organisational transformation in DGT's headquarter eliminated most of its directorate and formed new directorates at the same time. The taxation reform causes an increase in the number of directorates. After the taxation reform, the DGT's headquarter consist of one secretariat of general, 12 directorates, one division which specialised in processing data and document and led by a Director-General, as shown in figure 14. The significant differences between the DGT headquarter organisational structure before and after the taxation reform was the establishment of the directorate for intelligence and investigation, internal control, new directorates for information and technology, and data and document processing centre.

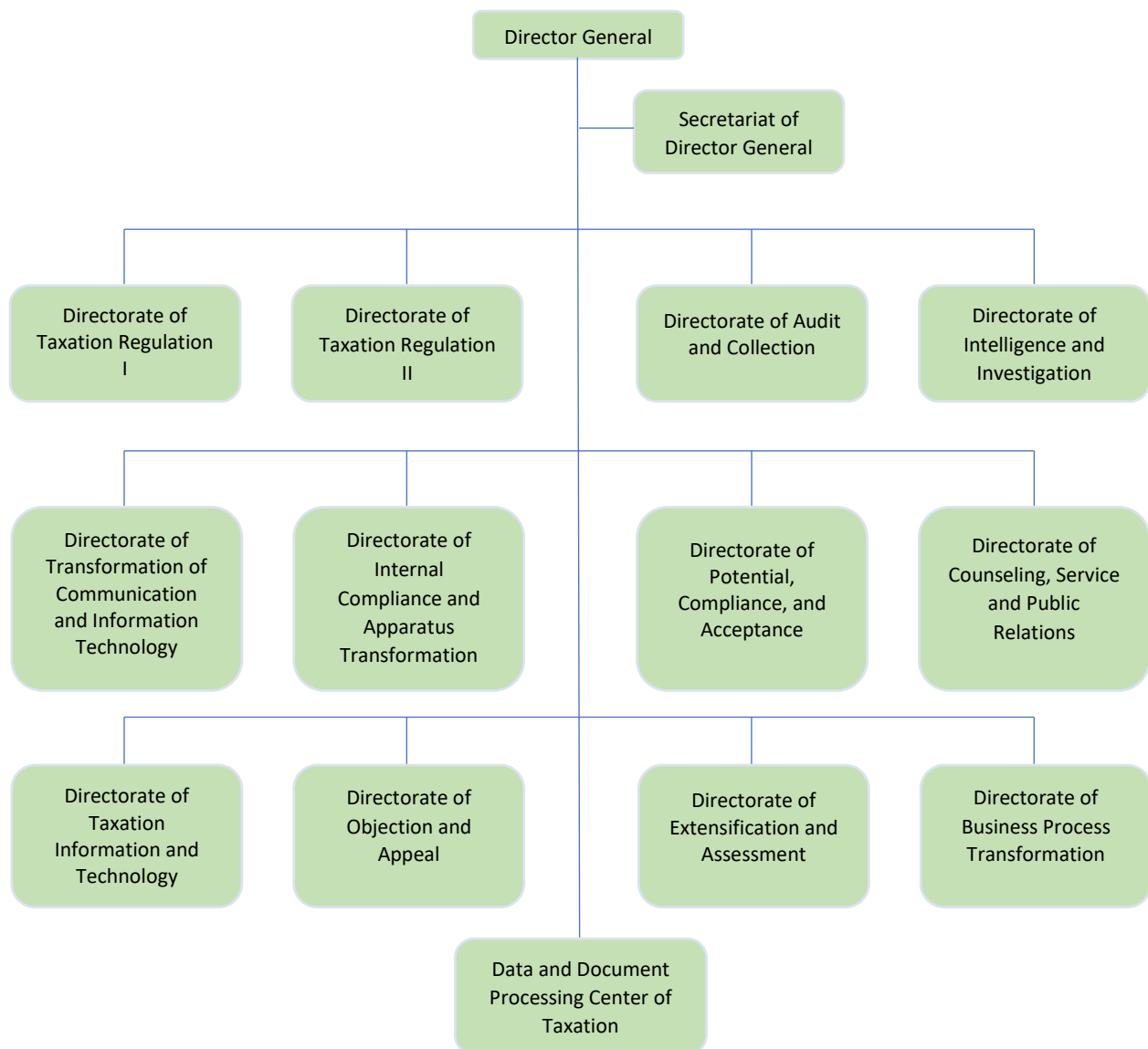


Figure 14: DGT's headquarter organisational structure after the taxation reform, ([DGT's Official Website](#), 2019, Minister of Finance Regulation Number 184/PMK.01/2010, 2010)

Directorate of Intelligence and Investigation (Directorate Inteldik) was a directorate that was specialised in taxation intelligence and investigating taxpayer in performing their tax obligation. Its duties were compiling intelligence's data, intelligence cooperation with other institutions, identify and analyse false financial statements of the taxpayer, and analyse tax evasion and avoidance's evidence. Directorate Inteldik was also trained tax employee about investigating of criminal taxation act. The establishment of Directorate Inteldik was expected to improve the tax compliance ratio by collecting data regarding

suspicious taxpayer and indicate to practice tax evasion and avoidance, and forward it to the branch office to be cross-checked further.

To maximise the use of information and technology (IT), DGT divided its IT department into two IT department, Directorate of Transformation of Communication and Information Technology (Directorate TTKI) and Directorate of Taxation Information and Technology (Directorate TIP). One of the objectives of the taxation reform was introducing IT into the DGT's taxation system to simplify taxpayer in performing their tax obligation and expected to improve taxpayer compliance. Directorate TTKI, who responsible in IT development in DGT, was established to improve the taxation system using IT utilisation

Directorate TTKI was accountable for inventing tax applications that were used not only by the tax officer but by the taxpayer as well. After the taxation reform, DGT was planned to launch four tax applications that can be used by the taxpayer. First e-SPT, a tax application for the corporate taxpayer and self-employed personal taxpayer to create their annual and monthly tax report. This application has simplified taxpayer in creating their tax report by automatically counting the amount of tax debt. This application has a good reputation by the taxpayer, which is shown by the increasing number of a taxpayer who files their tax report using e-SPT. The eSPT application is expected to improve tax compliance since it is beneficial and effortless. The taxpayer could upload the output of eSPT through eFiling to file a tax report.

Second, eFiling, a website for a personal and corporate taxpayer to input and report their tax report. This website simplifies the taxpayer in filing their tax report. This website has a good reputation by the taxpayer, which is shown by the increasing number of taxpayer who file their tax report using the eFiling website. The eFiling website is accessible in DGT's eFiling Website. The eFiling application is expected to improve tax compliance. Third, eBilling, a website for the taxpayer to pay their tax debt. This website simplifies the taxpayer in paying their tax debt, thus has a positive impact on tax compliance. When the e-payment was launched, DGT changed the application name to e-Billing. The e-Billing website is accessible in DGT's e-Billing Website. Fourth, e-Registration, an online application to register as a taxpayer and obtain their NPWP.

The implementation of eSPT and eFiling was a success with the high increase of users since 2014, as shown in Figure 15 The online application has a positive impact on

the tax compliance ratio since they simplify the taxpayer to comply with their tax obligation. Apart from the tax application, DGT’s website was created. This website provides tax-related information and eSPT application’s installer. eSPT and eFiling simplify AR’s job in monitoring taxpayer tax report via eFiling monitoring application. With these applications, AR can watch which the taxpayer has not paid taxes or submitted a tax report quickly and produce a warning letter or visit the taxpayer residence to ask for an explanation. eFiling and its monitoring application are very helpful for DGT to enforce tax law to the taxpayer by distinguishing which taxpayer has not done their tax duties.

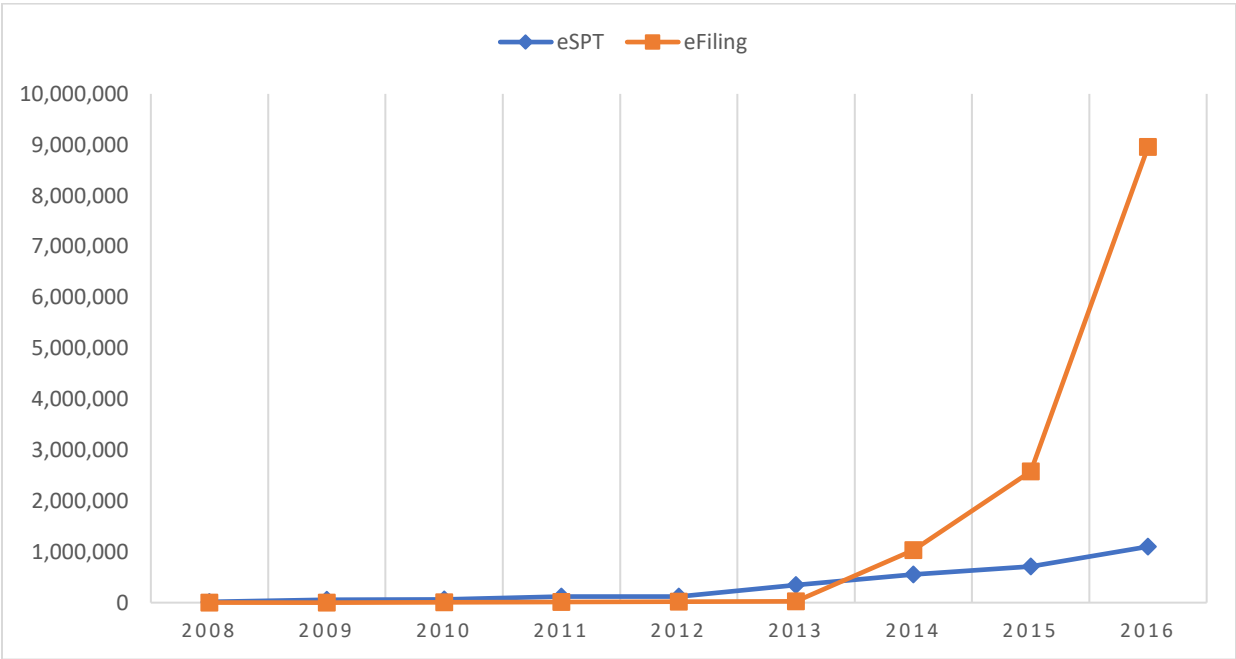


Figure 15: The number of taxpayers who utilise eSPT and eFiling (Dit. TIP, 2019, DGT’s Annual Report, 2008-2016)

Another IT department in DGT was Directorate TIP. Directorate TIP responsible for the IT system and IT infrastructure of DGT. The core system of the tax system in DGT is called the Directorate General of Taxes Information System (SIDJP). This system manages all information regarding taxpayer, both personal and corporate taxpayer, from their profile, tax payment history, tax report history to their transactions with another taxpayer. It is a Directorate TIP job to keep SIDJP accessible and usable by the tax officer. The establishment of two IT departments was expected to improve DGT’s utilisation in collecting tax on technology. The use of technology will improve DGT’s efficiency in collecting tax so that the tax compliance ratio will increase.

In 2006, to improve DGT's service to its taxpayer, a call centre called Kring Pajak was established. The DGT's owned call centre is supervised under the Directorate of Counseling, Service and Public Relations. DGT established its call centre to help a taxpayer who got problems regarding tax regulation, tax report and tax application. In 2013, Kring Pajak was announced as the best Indonesian call centre from Indonesia Contact Centre Association. Moreover, another new division in DGT was the Data and Document Processing Center of Taxation (PPDDP). The main job of PPDDP was collecting, scanning, recording, and storing all taxation documents by utilising all the IT infrastructure available in DGT. The establishment of PPDDP helps tax officer to find previous tax reports of the taxpayer and made the taxpayer investigation a lot faster.

DGT had a vital transformation on its branches. Before the taxation reform, there were three types of tax offices. First, KPP with the main task in giving taxation-related service and monitoring the taxpayer tax payment in income tax, VAT, sales tax on luxury goods and other indirect taxes. Second, KPP PBB with the main task in giving taxation-related service and monitoring the taxpayer tax payment in land and building tax. Third, the Karikpa with the main task in auditing taxpayer, preliminary auditing evidence, and tax investigation (Bawazier and Kadir, 2004).

The taxation reform eliminated the land and building tax office since most of the Land, and Building Tax was transferred to the regional government. The rights to collect all the Land and Building Tax was transferred to the regional revenue office in each city, except for the plantation, mining, and forestry. The rights to collect plantation, mining and forestry Land and Building Tax was transferred to the tax office. The tax audit office was merged with the tax service office and became the tax office (KPP Pratama). All the authorities of both offices were transferred to the tax office, except for the taxpayer objection's request which was transferred to the regional tax office.

The new tax office had a different organisational structure compare to the tax service office. The tax service office's section was divided based on the type of tax while the tax office was based on the function. Figure 16 shows the difference between the tax service office and the tax office section. With the additional task from the previous tax audit office, tax auditor was placed in the tax office. They worked as a team in which each side was consist of one or two auditors and a tax auditor team leader. Each tax office had three tax

auditor supervisor, which each of them led two teams. The head of tax office supervise the supervisors.

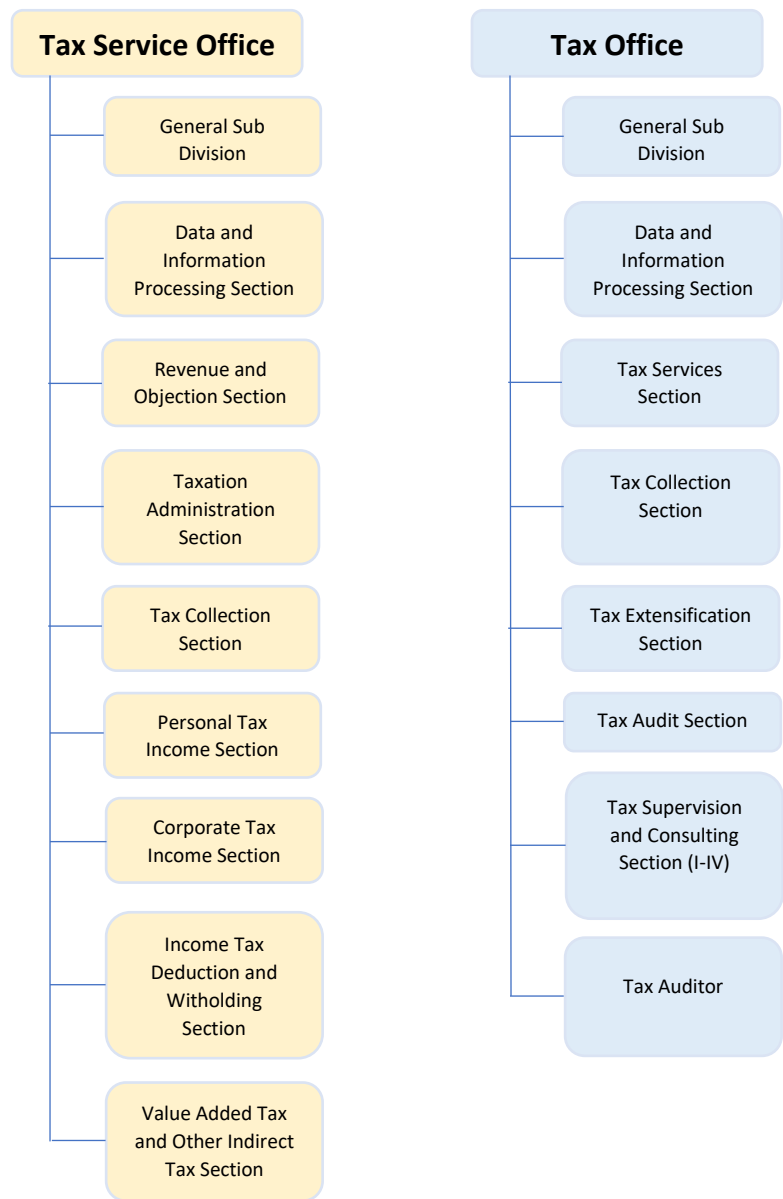


Figure 16: Tax Service Office and Tax Office Structural Organisation ([DGT's Official Website](#), 2019)

To improve tax compliance and tax revenue, DGT introduced a position called Account Representative (AR). AR was a tax officer who acts not only as a supervisor who supervised taxpayer compliance in paying their taxes but also as a tax consultant for the taxpayer. In other words, AR acted as a liaison between DGT and taxpayer. AR duty mostly supervised their taxpayer, whether the taxpayer under their supervision have paid their tax debt correctly and filed their tax report accordingly or not. AR not only acted as

taxpayer supervisor but tax consultant as well. A taxpayer who had questions related to their tax obligation such as how to calculate their taxable income, how much tax debt they have or even how to make tax report can consult about it with their AR. Furthermore, AR had the rights to visit their taxpayer or ask them to come to the tax office to be questioned about taxpayer's tax debt, issue tax penalty, and escalate their taxpayer to be audited more thoroughly by the tax auditor.

Another position that is crucial for tax compliance is the tax auditor. Tax auditors have the rights to audit taxpayer, either corporate or personal, and ask for their bookkeeping for further investigation. Tax auditor cooperates with AR in choosing which taxpayer that should be audited and decided how much amount of tax that should be paid by the taxpayer. Both AR and tax auditor have a vital part in terms of DGT's law enforcement regarding tax compliance.

To raise taxpayer awareness and knowledge about taxes, the tax office has to hold a taxation event and invited their taxpayer to join the programmes. The event was usually held by the tax office several times a year, each time a new tax regulation or tax application released. In this event, the taxpayer would be taught about what was new about the tax regulation, how to calculate their taxes, and how it would affect their tax report. Moreover, each time a new application or application update was released, the taxpayer would be taught how to install or update the application, how to make a tax report using the application.

There were three types of tax office. First, the Large Taxpayer Tax Office (KPP LTO). Large taxpayer tax office manage taxpayer which considered by DGT as big national corporates, both private and public company, and wealthy people. They were located in Jakarta, the capital city of Indonesia. Second, Medium Tax Office (KPP Madya). Medium tax office manage taxpayer which considered by DGT as big regional corporates, both private and public company. They were located in several big cities in Indonesia. Third, Tax Office (KPP Pratama). Tax offices location were spread in every city in Indonesia. They managed both corporate and personal taxpayer.

The transformation of DGT in both headquarter and branches was expected to boost tax compliance ratio and tax revenue. The utilisation of IT and service-oriented tax office and the introduction of a tax officer who specialised in supervising taxpayer

compliance give a positive impact not only to the tax compliance ratio but also to the taxpayer satisfaction to DGT's performance. The success of DGT's effort in improving its services was shown in the high level of the Stakeholder Satisfaction Index in 2010 to 2016, as shown in figure 17, and the organisational performance's rate in 2013 with 98.04 per cent.

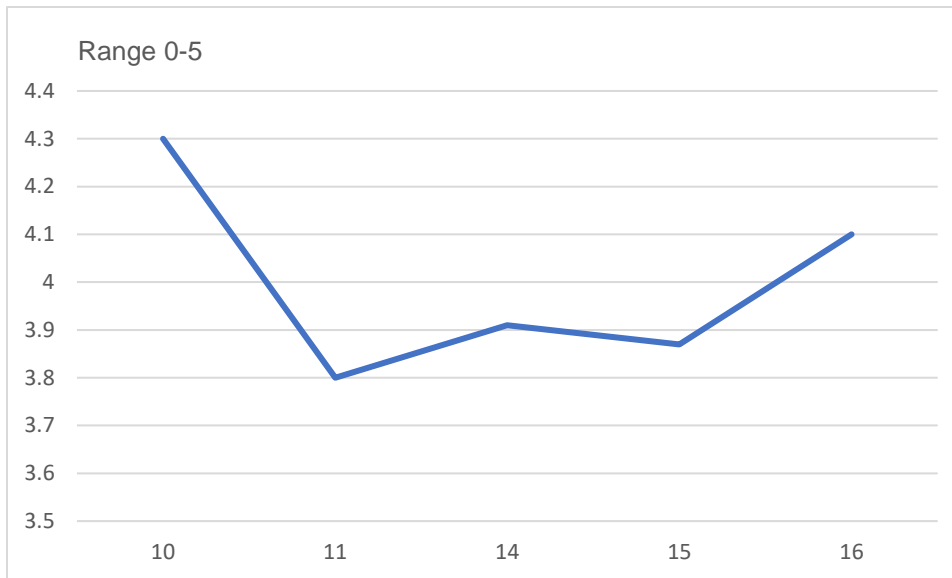


Figure 17: DGT's Stakeholder Satisfaction Index from 2010 to 2016 (DGT Annual Report 2010-2016)

The taxation reform established a division in DGT's headquarter, which specialised in internal control. It was created to improve trust from the taxpayer and developed the tax officer's ability. Division with duty in tax institution internal control was called Directorate of Internal Compliance and Apparatus Transformation (Directorate KITSDA). This division responsibilities were planning and implementing internal control system, internal investigation for the code of ethics violations, investigating taxpayer complaints regarding tax officer. Furthermore, Directorate KITSDA was also evaluating the implementation of the tax officer development, evaluating tax officer performance, and coordinating with the Center of Taxation Education and Training, Ministry of Finance on tax officer development. The Directorate KITSDA was expected to give a positive effect on tax compliance by forming professional, knowledgeable, and law-abiding tax officer.

Hutagaol (2007) argued that the tax officer's quality affects tax compliance. The ability of the tax officer to understand the tax system and use their knowledge to serve and educate the taxpayer to give positive impact to tax compliance. To improve its service



to the taxpayer, DGT gradually trained its employee, not only to improve the quality of its employee so that the quality of DGT’s service will increase. The highest increase in the number of tax officer trained happened in 2011 with a 124 per cent increase. However, in the following year, the amount of tax officer taught decreased 75 per cent since most of the tax officer had already been trained in the previous year. Moreover, DGT increases its number of employee to enhance its service to the public.

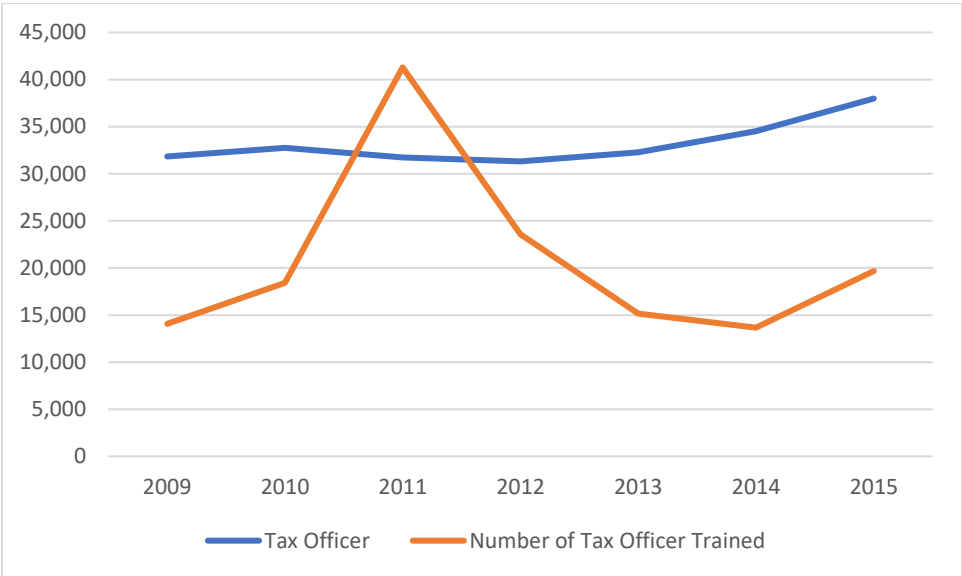


Figure 18: Number of tax officer and tax officer trained 2009-2015 (DGT Annual Report).

The knowledgeable taxpayer has positive attitudes towards tax compliance (OECD, 2013). To adapt taxation with the development of economy, business and information technology, DGT gradually updates its tax regulation and tax application. To keep the taxpayer up to date and comprehend with the recent law and application update, tax offices often organise free events such as tax gathering, socialisation and training for the taxpayer. DGT held these events not only as a service for its taxpayer but also as an opportunity to influence taxpayer to comply.

To improve DGT service to the taxpayer and tax officer performance, DGT regularly gives education and training to its employee. Every year, thousands of tax officer were trained and educated about tax and other knowledge related to tax, as shown in figure 18. Education and training are essential for tax officer so that they have strong knowledge about taxation. A dependable tax officer is expected to improve taxpayer satisfaction level to DGT’s service. The improvement of taxpayer satisfaction to DGT’s service has a

positive effect on tax compliance. Moreover, DGT regularly recruits new tax employees not only to increase their service for the taxpayer but also to enhance its supervision to the taxpayer. With more advanced monitoring by adding new tax employees, trained its employees, and its tax applications, the DGT's duty on supervising taxpayer in doing their tax obligation can be more productive.

### 5.2.2 Non-Taxation

The Government have to make sure that they are trustworthy in collecting tax revenue and use it for the country's development and public welfare. Moreover, how the government spend the tax money should satisfy the public as well since it has a significant impact on the tax compliance ratio. Hence, the government should improve the satisfaction and trust level among its citizen by improving services in health, education and infrastructure to increase tax compliance. The policies imposed by the government should not only satisfy the citizen as an individual but as a group as well since the opinion of an individual is affected by other individual's opinion. Thus, the government should allocate their budget that changed most of the people.

Polls from several survey institutions show that the satisfaction level to the government fluctuates between 2008 until 2018, as shown in figure 19. In 2009, the satisfaction level reached the highest point for the past eleven years, with 74 per cent. The high degree of satisfaction in 2009 was also shown by the re-election of the former Indonesian's president, Susilo Bambang Yudhoyono, for the second time. Unfortunately, the level of satisfaction was decreased in the four following years to less than 55 per cent.

The satisfaction level started to have a massive leap in 2015 when the government build large-scale infrastructure in Indonesia. Thousands kilometre of road and highways, tens of airports, seaports and dams were established in 2015 onwards to develop infrastructure. The enormous infrastructure development over the past five years had boosted the satisfaction level to the government. Furthermore, the increase in satisfaction level in 2015 was also affected by health policies. Since the BPJS was established in 2014, many people had felt the benefits of the health policies from the government. Despite the fluctuation, the satisfaction level to the government from 2015 to 2018 never

had below 65 per cent. This high level of satisfaction is in line with the tax compliance ratio between 2015 until 2017, which surpassed sixty per cent, the first time since 1996.

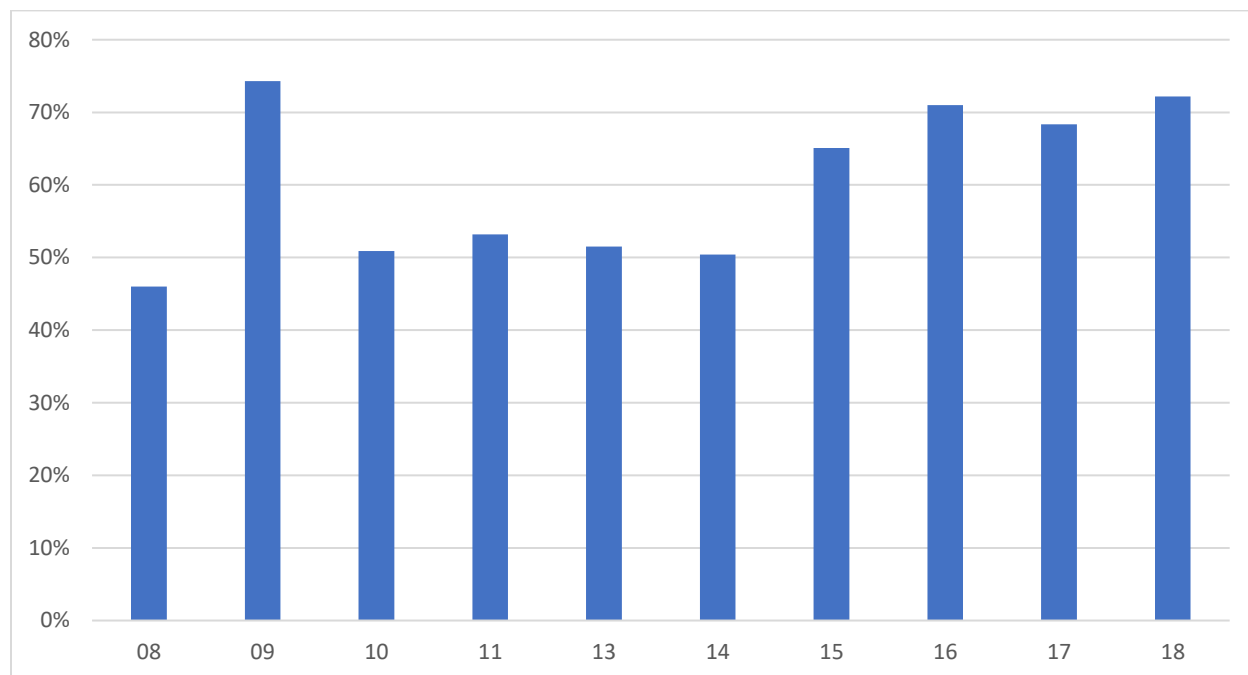


Figure 19: Public Satisfaction Survey 2008-2018 (Kompas.com, 2019)

One factor that affects the citizen’s trust level to the government is corruption, and the citizen’s trust influences tax compliance in the government. According to OECD (2013), corruption gives a negative influence on the tax compliance ratio. High corruption rate makes the taxpayer feels that the tax they paid to the government is going to be misused; thus, will decrease the taxpayer to comply. The corruption level in Indonesia is quite high. Indonesia’s Corruption Perception Index (CPI) from 2008 to 2016 had never been surpassed by 40 (Transparency.org, 2019), as shown in figure 20. In 2010, the CPI of Indonesia was 28, which made Indonesia in the 100<sup>th</sup> place. Very Clean of corruption score is 100.

Corruption Eradication Commission (KPK) was established in 2002 by the government to reduce the corruption level in Indonesia. Since its establishment, KPK managed to reveal numerous corruption case in Indonesia, especially among public officials. Based on the survey by Indonesian Corruption Watch (<https://www.antikorupsi.org>, 2019) in 2018, KPP was regarded as the most trusted public institution in Indonesia. The establishment of KPK gives positive impact to the corruption level in Indonesia. Since 2007, the CPI of Indonesia had a positive trend and reached its

peak in 2016 with 37 points. The increasing trend of the CPI from 2015 to 2016 was in line with the tax compliance ratio.

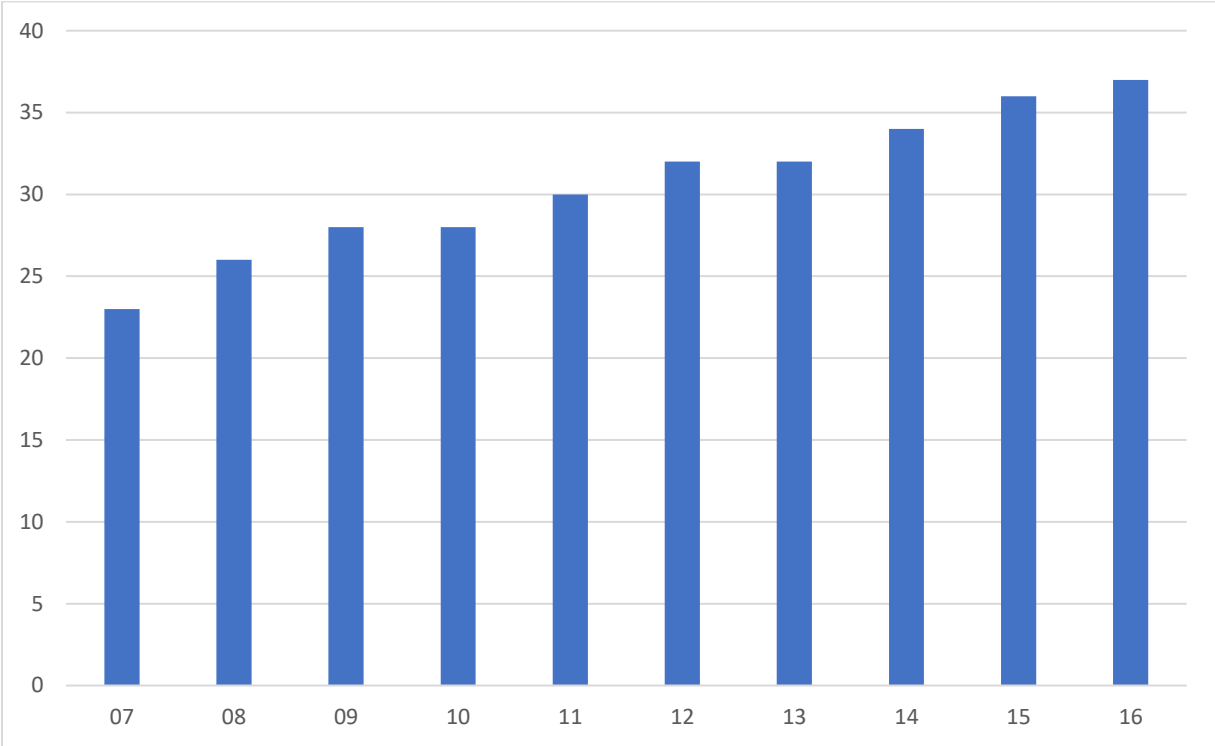


Figure 20: Indonesian CPI 2007-2016 (transparency.org, 2019)

## 6 Discussion

The tax compliance figure, as shown in figure 21, illustrates that from 1996 to 2000, shows a downturn trend. The negative trend was ended in 2001, the year that the taxation reform was initiated. However, in 2002 the tax compliance has another downturn trend until 2007 before it had a sharp increase for the next three years. In 2011 and 2012 there were tax compliance ratio reduction and continued with an upswing trend until 2016.

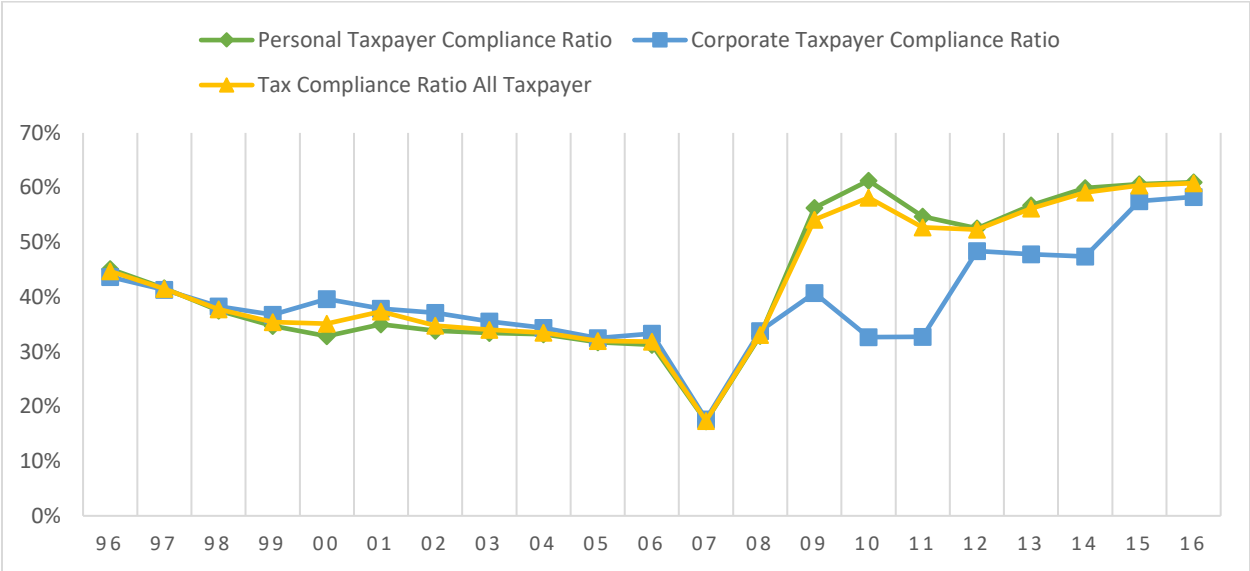


Figure 21: Tax compliance ratio 1996-2016 (DGT Annual Report 2007-2016, Secretariat General, Indonesian House of Representative, 2010)

The downturn trend between 1996 until 2000 shows that before the taxation reform was initiated, Indonesian taxation had a problem with the tax compliance ratio. With only around 1.8 million taxpayers obliged to file tax report, the number of taxpayer submits their tax report was less than 45 per cent. The negative trend was affected by the corruption level in Indonesia. According to Transparency International (2019), the corruption index in Indonesia between 1998 until 2000 were 18 on average, the lowest for the past 20 years. In addition to the negative trend, in 1997 economic crisis hit Asia and Indonesia was one of the countries that suffered the most. The value of rupiah dropped from Rp 2,300 to Rp 17,000 for one US dollar in one year. Many businesses collapsed, and many people lost their job. The economic crisis in 1997 was followed by the political crisis in 1998 when Indonesian President, Soeharto, was forced to resign after monthly of chaos in several cities in Indonesia.

During the taxation reform period, from 2001 to 2007, was a period of a downturn trend, as shown in table 3. The reason for the negative trend was the increasing number of personal taxpayer. The highest increase of the personal taxpayer happened in 2007, with 78.8 per cent. Even though the number of personal taxpayers was increased sharply, the number of personal tax report received by DGT has decreased by 1.1 per cent. The condition was worsened by the corporate taxpayer report submission, which decreased by 40.85 per cent. Caused by the sharp increase of personal taxpayer and tax report reduction for both personal and corporate taxpayer, the tax compliance in 2007 hit the lowest point since 1996 with 17.36 per cent ratio. Many new taxpayers that were registered in 2007 did not comply with their tax report because of their lack of knowledge on what are their obligation as a taxpayer.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Personal Taxpayer (PT)	1,158	1,227	1,268	1,308	1,332	1,470	1,986	2,263	2,565	2,829	2,877
Corporate Taxpayer (CT)	492	536	574	641	665	716	795	882	964	1,054	1,138
Total Taxpayer	1,651	1,763	1,841	1,949	1,997	2,185	2,782	3,146	3,529	3,883	4,015
PT Tax Report	523	510	475	454	438	539	672	757	851	898	900
CT Tax Report	215	222	220	236	264	277	295	313	331	343	379
Total Annual Tax Report	738	732	695	690	701	816	968	1,070	1,182	1,241	1,278
PT Compliance Ratio	45.14%	41.61%	37.50%	34.72%	32.87%	35.00%	33.85%	33.44%	33.19%	31.74%	31.27%
CT Compliance Ratio	43.66%	41.33%	38.28%	36.78%	39.61%	37.89%	37.12%	35.51%	34.36%	32.49%	33.29%
Tax Compliance Ratio	44.70%	41.52%	37.74%	35.40%	35.11%	37.34%	34.79%	34.02%	33.51%	31.95%	31.84%

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Personal Taxpayer (PT)	5,145	5,096	8,623	12,567	16,104	16,633	16,590	17,192	16,975	18,950
Corporate Taxpayer (CT)	1,269	1,246	1,373	1,535	1,590	1,026	1,142	1,166	1,185	1,215
Total Taxpayer	6,413	6,342	9,997	14,102	17,694	17,659	17,732	18,358	18,160	20,166
PT Tax Report	890	1,677	4,853	7,701	8,812	8,741	9,420	10,300	10,291	11,555
CT Tax Report	224	421	560	501	520	497	546	553	681	709
Total Annual Tax Report	1,114	2,098	5,413	8,202	9,333	9,238	9,967	10,852	10,973	12,264
PT Compliance Ratio	17.29%	32.91%	56.28%	61.28%	54.72%	52.55%	56.78%	59.91%	60.63%	60.98%
CT Compliance Ratio	17.66%	33.76%	40.76%	32.66%	32.72%	48.43%	47.85%	47.40%	57.51%	58.31%
Tax Compliance Ratio	17.36%	33.08%	54.15%	58.16%	52.74%	52.31%	56.21%	59.12%	60.42%	60.82%

Table 2: Personal and corporate taxpayer compliance 1996-2016 (in thousand) (DGT Annual Report 2007-2016, Secretariat General, Indonesian House of Representative, 2010)

Between 2008 and 2010, the tax compliance ratio in Indonesia rose sharply. The rise of tax compliance was dominantly from the personal taxpayer. The number of personal taxpayer rose with 69 per cent and 45 per cent in 2009 and 2010, were followed by the increasing number of tax report in the same year with 50 per cent and 28.5 per

cent. However, the number of personal and corporate taxpayer in 2008 decrease 1 per cent, yet, the number of tax report received rose sharply with 88 per cent. The sharp rise in 2008 to 2010 was caused by the new tax regulation where the taxpayer was allowed to file the tax report with eSPT and eFiling, lower tax rates and higher tax penalties were applied. Moreover, the amendment of tax regulation was supported by the transformation of DGT. These factors support the enhancement of tax compliance.

Even though the tax report received by the DGT increase by 13 per cent in 2011, the increase was half of the number of taxpayer rise. This condition declined tax compliance ratio with 5.42 per cent reduction and 0.4 per cent in the following year. However, DGT managed to increase tax compliance in 2013 and started an upswing trend until 2016.

## 7 Conclusion

The Indonesian taxation reform was initiated in 2001 and completed in 2008. One of the reasons why the Indonesian Government decided to have a taxation reform was the low level of tax compliance ratio. From 1996 to 2000, the average tax compliance ratio in Indonesia was 39 per cent. It was a low ratio of tax compliance compare to other countries. The taxation reform was expected to improve the tax compliance taxpayer trust to the tax administration, and tax officer's productivity. To achieve these goals, the Indonesian government transform DGT organisational structures and tax regulation. The tax regulations amended were Law on General Provisions and Tax Procedures in 2007 and Law on Income Tax in 2008.

Based on the result of the previous section, it can be concluded that the taxation reform in 2008 had succeeded in improving tax compliance in Indonesia, both for the personal taxpayer and corporate taxpayer. The progress of tax compliance since 2008 shows a positive result, especially for the personal taxpayer, although there was a moment when the tax compliance decreased by 5 per cent. The decline in 2011 was reasonable since there was a 26 per cent increase in the number of the taxpayer with 98 per cent of the rise were the personal taxpayer.

Even though the taxation reform was succeeded in improving the tax compliance ratio in Indonesia, the ratio in 2016 was still considered low compared to other countries such as Chile and Argentina. Hence, there supposed to be another effort from the Indonesian Government to improve the tax compliance ratio to the same level as other countries.

The empirical analysis section shows several factors that arguably had an impact on improving tax compliance in Indonesia. Some of the most critical factors are as follows: First, the increasing number of eFiling utilisation. From 2014 to 2016, the eFiling usage had a massive growth with 3.830 per cent, 150 per cent and 247 per cent increase respectively. The sharp rise of eFiling utilisation was the result of extensive socialisation and advertisement regarding e-Filing. Second, satisfaction with the government service. Since 2015, the Indonesian Government were planning to build many infrastructures in Indonesia such as dams, railroads and highways. The improvement of satisfaction level is seen by the increasing on the Public Satisfaction Survey from 2014 to 2016. Third,



corruption level. The law enforcement on corruption in Indonesia was quite satisfying. Started in 2013 until 2016, the CPI of Indonesia has an upswing trend. Fourth, the increasing number of tax officer and half of them were being trained by the DGT.

## REFERENCES

- Abimanyu, Anggito, 2004. Reformasi Perpajakan Perlu Dukungan dan Peran Serta Masyarakat.
- Abimanyu, A. and Megantara, A. (2009). Era baru kebijakan fiskal. Jakarta: Buku Kompas.
- Andreoni, J., Erard, B., Feinstein, J. (1998). Tax Compliance. *Journal of Economic Literature*, 36(2), pp.818-860.
- Adriani, P. (2005). Pengantar Ilmu Hukum Pajak. Jakarta: Gramedia.
- Allingham, M. and Sandmo, A. (1972). Income tax evasion: a theoretical analysis. *Journal of Public Economics*, 1(3-4), pp.323-338.
- Alm, J. (1999). Tax Compliance and Administration.
- Alm, J. (2018). WHAT MOTIVATES TAX COMPLIANCE?. *Journal of Economic Surveys*, 33(2), pp.353-388.
- Alm, J., Martinez-Vazquez, J. and Schneider, F. (2004). Taxing the hard-to-tax. Amsterdam: Elsevier/North Holland.
- Alm, J., Sanchez, I. and DE Juan, A. (1995). Economic and Noneconomic Factors in Tax Compliance. *Kyklos*, 48(1), pp.1-18.
- Andreoni, J., Erard, B., Feinstein, J. (1998). Tax Compliance. *Journal of Economic Literature*, 36(2), pp.818-860.
- Amir, H., Asafu-Adjaye, J. and Ducpham, T. (2013). The impact of the Indonesian income tax reform: A CGE analysis. *Economic Modelling*, 31, pp.492-501.
- Arnold, J. (2012). Improving the Tax System in Indonesia. Economics Department Working Papers, 998.
- Auerbach, A. and Hines, J. (2001). Perfect Taxation with Imperfect Competition. NBER Working Paper, (8138).
- Badan Perencanaan Pembangunan Nasional, Badan Pusat Statistik, United Nations Population Fund (2013). Indonesian Population Projection 2010-2035. Jakarta: Badan Pusat Statistik, p.24.

- Bangun, H., Ginting, Y. and Iskandar, R. (2017). The Problems of Taxpayers Compliance, Ethics, Tax Audit, and Tax Penalty: Evidence from Samarinda. *Advances in Economics, Business, and Management Research (AEMBR)*, 35, p.1.
- Bawazier, F. and Kadir, A. (2004). Kebijakan dalam Tax Reform 1994 dan Tax Reform 1997.
- Baxter, P. and Jack, S. (2008). Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers. *The Qualitative Report*, 13(4).
- Bergman, M. (2003). Tax Reforms and Tax Compliance: The Divergent Paths of Chile and Argentina. *Journal of Latin American Studies*, 35(3), pp.593-624.
- Besley, T. and Persson, T. (2013). Taxation and Development. CEPR Discussion Paper, DP9307.
- BPJS Kesehatan (2014). Pedoman Umum Tata Kelola yang Baik (Good Governance) BPJS Kesehatan. Jakarta: BPJS Kesehatan.
- Directorate General of Taxes (2019). *DGT Annual Report 2007-2017*. Jakarta: Directorate General of Taxes.
- Direktorat Jenderal Pajak Kementerian Keuangan. (2018). [online] Available at: <http://pajak.go.id/> [Accessed 20 Dec. 2018].
- Downs, A. and Stetson, B. (2014). *Economic and Non-Economic Factors: An Analysis of Corporate Tax Compliance*. Emerald Group Publishing Limited, pp.37-72.
- Edame, G. and Okoi, W. (2014). The Impact of Taxation on Investment and Economic Development in Nigeria. *Academic Journal of Interdisciplinary Studies*.
- Farida, A., Novitasari, S., Nareswari, S., Musahadah, M. and Yuhertiana, I. (2018). REFORMASI PERPAJAKAN INDONESIA DAN SINGAPURA: LÜDER'S CONTINGENCY MODEL. *Jurnal Analisa Akuntansi dan Perpajakan*, 2(1).
- Fjeldstad, O. and Semboja, J. (2001). Why People Pay Taxes: The Case of the Development Levy in Tanzania. *World Development*, 29(12), pp.2059-2074.
- Gunadi. 2005. Fungsi Pemeriksaan Terhadap Peningkatan Kepatuhan Wajib Pajak (Tax Compliance). *Jurnal Perpajakan Indonesia*, Vol.4 no.5: p4-9.

- Hinrichs, H. (1966). A General Theory of Tax Structure Change during Economic Development. Harvard Law School International Law Programme.
- Ikhsan, M., Trialdi, L. and Syahrial, S. (2005). Indonesia's new tax reform: Potential and direction. *Journal of Asian Economics*, 16(6), pp.1029-1046.
- Indonesia Corruption Watch (2009). *Annual Report Indonesia Corruption Watch 2009*. Indonesia Corruption Watch, p.12.
- Indonesia Investment Coordinating Board (BKPM) (2018). Domestic and Foreign Direct Investment Realization in Quarter IV and January - December 2017. Jakarta: Indonesia Investment Coordinating Board (BKPM), p.26.
- Internal Revenue Service, United State Department of the Treasury, 1978. A Dictionary of Compliance Factors (Government Printing Office, Washington, D.C.
- James, S. and Alley, C. (2009). Tax Compliance, Self-Assessment and Tax Administration. *Journal of Finance and Management in Public Services*.
- James, S. and Nobes, C. (1978). The economics of taxation. Oxford: Allan.
- Kaldor, N. (1963). Taxation for Economic Development. *The Journal of Modern African Studies*, 1(01), p.7.
- Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia. (n.d.). Perkembangan Data Usaha Mikro, Kecil, Menengah (UMKM) dan Usaha Besar (UB) Tahun 2004-2012. [online] Available at: <http://www.depkop.go.id/data-umkm> [Accessed 10 Apr. 2019].
- Kent, C. (2015). Principles of a Good Tax System.
- Kirchler, E., Hoelzl, E. and Wahl, I. (2008). Enforced versus voluntary tax compliance: The “slippery slope” framework. *Journal of Economic Psychology*, 29(2), pp.210-225.
- Kompas. (2019). *Survei Kepuasan Terhadap Pemerintahan*. [online] Available at: <http://Kompas.com> [Accessed 12 May 2019].
- Leroy-Beaulieu, P. (1912). *Traite de la science des finances*. Paris: Libr. Felix Alcan.

- Lubis, A. (2015). Pengelolaan Sumber Penerimaan Pajak sebagai Sumber Pendanaan Utama dalam Pembangunan. [online] Badan Pendidikan dan Pelatihan Keuangan (BPPK). Available at: <https://bppk.kemenkeu.go.id/id/publikasi/artikel/147-artikel-anggaran-dan-perbendaharaan/20495-pengelolaan-sumber-penerimaan-pajak-sebagai-sumber-pendanaan-utama-dalam-pembangunan> [Accessed 18 Apr. 2019].
- Manhire, J. (2015). What does Voluntarily Tax Compliance Mean?: A Government Perspective. *University of Pennsylvania Law Review Online*.
- Morris, S. and Klesner, J. (2010). Corruption and Trust: Theoretical Considerations and Evidence From Mexico. *Comparative Political Studies*, 43(10), pp.1258-1285.
- Musgrave, R.A. (1969). *Fiscal Systems*. New Haven, CT: Yale University Press.
- Mustajab, M 2009, 'Infrastructure investment in Indonesia: Process and impact', Doctor of Philosophy, Rijksuniversiteit Groningen, [S.I.].
- Nasution, D. (2004). *Substansi Perubahan Undang-Undang Perpajakan 2008*.
- Nizar, M. (2015). Kelas Menengah (Middle Class) dan Implikasinya bagi Perekonomian Indonesia. [online] Available at: <https://www.researchgate.net/publication/279406954> [Accessed 17 Mar. 2019].
- Nugraha, N. (2019). Kepatuhan Wajib Pajak di Indonesia dari Perspektif Kebijakan Pemeriksaan Pajak. [online] Research Gate. Available at: <https://www.researchgate.net/> [Accessed 20 Aug. 2018].
- Oluyombo, O. and Olayinka, O. (2018). Tax Compliance and Government Revenue Growth in Nigeria. *Lapai International Journal of Administration*, 1(2), pp.245-253.
- Ortega, D., Ronconi, L. and Sanguinetti, P. (2013). Reciprocity and Willingness to Pay Taxes: Evidence from a Survey Experiment in Latin America. *Centro de Investigacion y Accion Social*.
- Owens, J. and Parry, R. (2009). Why tax matters for development - OECD Observer. [online] [Oecdobserver.org](http://oecdobserver.org). Available at: [http://oecdobserver.org/news/archivestory.php/aid/2943/Why\\_tax\\_matters\\_for\\_development.html](http://oecdobserver.org/news/archivestory.php/aid/2943/Why_tax_matters_for_development.html) [Accessed 5 Apr. 2019].
- Pandiangan, L. and Toruan, R. (2008). *Modernisasi & reformasi pelayanan perpajakan*. Jakarta: Elex Media Komputindo.

- Prabowo, O. and Indarto, I. (2018). EFEKTIVITAS PELAKSANAAN REFORMASI PERPAJAKAN. *Jurnal Riset Ekonomi dan Bisnis*, 11(3), p.220.
- Prasetyo, A. (2016). *Konsep dan Analisis Rasio Pajak*. Jakarta: Elex Media Computindo.
- Prasetyo, K. (2018). *Developing a Model for Enhancing the Indonesian Tax Administration System*.
- Pratomo, M. (2018). *Investigating Tax Compliance Risks of Large Business in Indonesia*. Ph.D. RMIT University.
- Pommerehne, W. W., and Weck-Hannemann, H. (1989). Tax rates, tax administration and income tax evasion in Switzerland, Discussion Paper No. B8904, Department of Economics, University of Saarland, Saarbrucken.
- Purnomo, H. (2004). *Reformasi Administrasi Perpajakan Tahun 2003*.
- Rahman, A. (2017). *Tax Compliance in Indonesia: The Role of Public Officials as Taxpayers*. Ph.D. University of Twente.
- Rao, S. (2014). *Tax reform: Topic guide*. Birmingham, UK: GSDRC, University of Birmingham.
- Roth, J., Scholz, J. and Witte, A. (1989). *Taxpayer Compliance An Agenda for Research*. 1st ed. Philadelphia, P.a: University of Pennsylvania Press.
- Secretariat General of Indonesian House of Representative (2010). *Kinerja Penerimaan Perpajakan dan Pertimbangan APBN-P 2010*. Jakarta: Analysis Bureau and Implementation of APBN.
- Soemitro, R. (1979). *Dasar-dasar hukum pajak dan pajak pendapatan 1944*. Bandung: Eresco.
- Soesastro, H. (2005). *Pemikiran dan permasalahan ekonomi di Indonesia dalam setengah abad terakhir*. [Jakarta]: Ikatan Sarjana Ekonomi Indonesia.
- Sommerfeld, et al. (1994). *Concepts of Taxation*. San Diego: The Dryden Press.
- Suhardjito. *Reformasi Perpajakan Dalam Rangka Peningkatan Kepatuhan Wajib Pajak, Tata Kelola yang Baik Serta Kemandirian Bangsa*. *Forum Manajemen*, 13(03).
- Sukardji, U. (1999). *Pajak pertambahan nilai*. Jakarta: RajaGrafindo Persada.

- Sumardjito, H., Daryanto, A., Hubeis, M. and Eriyatno (2012). Efektivitas Pelaksanaan Kebijakan Reformasi Perpajakan (Studi Kasus pada Kantor Wilayah Direktorat Jenderal Pajak Jakarta Khusus). *Kajian Ekonomi dan Keuangan*, 16(1), p.2.
- Tahir, R. (2004). Analisis Rasio Pajak dalam Memprediksi Kapasitas, Upaya, dan Kinerja Perpajakan Indonesia. *Jurnal Administrasi Bisnis*, 1(3), pp.284-304.
- Torgler, B. (2011). Tax Morale and Compliance Review of Evidence and Case Studies for Europe. *Policy Research Working Paper*, 5922.
- Transparency International. (2019). *Corruption Perception Index*. [online] Available at: <https://www.transparency.org/country/IDN> [Accessed 12 May 2019].
- Undang-Undang Nomor 6 Tahun 1983 tentang Ketentuan Umum dan Tata Cara Perpajakan.
- Undang-Undang Nomor 16 Tahun 2000 tentang Perubahan Kedua atas . Undang-Undang Nomor 6 Tahun 1983 tentang Ketentuan Umum dan Tata Cara Perpajakan.
- Undang-Undang Nomor 28 Tahun 2007 tentang Perubahan Ketiga atas . Undang-Undang Nomor 6 Tahun 1983 tentang Ketentuan Umum dan Tata Cara Perpajakan.
- Undang-Undang Nomor 7 Tahun 1983 tentang Pajak Penghasilan.
- Undang-Undang Nomor 17 Tahun 2000 tentang Perubahan Ketiga atas Undang-Undang Nomor 7 Tahun 1983 tentang Pajak Penghasilan.
- Undang-Undang Nomor 36 Tahun 2008 tentang Perubahan Keempat atas Undang-Undang Nomor 7 Tahun 1983 tentang Pajak Penghasilan.
- World Bank Open Data. (2018). [online] Available at: <https://data.worldbank.org/> [Accessed 20 Dec. 2018].