

# Tax Administration Reform in Indonesia: Lessons, Learnt, and Future direction

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**Abstract-** Tax revenue has tended to be stagnant in the last five years and even decreased in Indonesia's reform process for the last 17 years. Tax reform in Indonesia was started in 1983 by introducing the principle of self-assessment. Tax reform has saved Indonesia's fiscal condition, especially when the oil and gas sector can no longer be expected to support state revenues. In historical records, Indonesia has carried out 6 (six) tax reforms. The purpose of reforming and reforming taxation regulations is to increase tax revenue improving tax regulation and administration, utilizing information technology to create an integrated system. The main problem of taxation is the level of compliance of taxpayers in Indonesia, which still needs to be improved; the level of compliance of individual taxpayers in Indonesia is still deficient. It is time for the Government to expand the tax base and reduce the corporate tax burden, which has been the backbone of State revenue. A reduction in the corporate tax burden in the short term can distort revenues, but it can create a compelling and competitive investment climate in the long run. Industrial 4.0 brought significant changes to the shift in payment transaction methods in Indonesia. Now, existing payment methods have turned digital and are beginning to shift the existence of conventional methods. The rapid digital transformation has led to the perception that existing international tax regulations are outdated and no longer relevant. The regulation, which is more than a century old, has not adequately accommodated economic digitization provisions. For the dominance of digital transaction transformation, the Government of Indonesia released the Digital service Tax (DST) regulation through Government Regulation in Lieu of Law No. 1 of 2020, which strictly implements the electronic transaction tax during health, social and financial crisis in handling the Covid-19 pandemic which not only attacks Indonesia but even almost all countries in the world, which causes an economic slowdown, the Government is aware of the severe handling of economic recovery by creating an investment climate for the concept of omnibus law, even though it is not following the legal system adopted in Indonesia, however, in the world of the digital ecosystem and global governance, there is nothing wrong with Indonesia breaking through this boundary space. The idea to start using the Omnibus Law is motivated by the number of laws that hinder the ease of doing business and investing in Indonesia, so the law is needed to amend other laws and simplify regulations to harmonize them. Laws and regulations related to licensing in various sectors to resolve business licensing barriers create jobs that are substantially related to the investment ecosystem.

**Index Terms-** Tax Reform, Expansion of the Tax Base, Digital Transformation, Omnibus Law

## I. INTRODUCTION

Taxes are a significant source of state revenue for the administration of governance and national development implementation, and the Government places taxation obligations as a manifestation of state obligations. Taxes are a means of financing the State in National Development to achieve the country's goals. The importance of the taxation sector's role in government administration can be seen in the annual State Budget (APBN) and the Draft State Budget submitted by the Government, namely the increase in tax contributions from year to year. The role of taxes in financing various state expenditures, especially in development, can be optimized if every Taxpayer is aware of their obligations.

According to Regional Revenue and Expenditure Budget (APBD-P) Performance report data, the realization of tax revenues in 2017 reached Rp1,147.5 trillion or 89.4 percent of the 2017 APBNP target. According to the OECD's statistical data, Indonesia's tax ratio was 11.9% in the same year. For example, if compared to other countries, Australia achieved a tax ratio of 28.5%, these data show a significant difference between Indonesia and Australia's tax ratio of 16.6%. The tax ratio shows the tax policies adopted by a country and how efficient and effective the tax administration is. The phenomenon of low tax ratio in Indonesia is something that deviates from the concept. The Indonesian economy, which continues to grow positively, is not in line with tax collection performance, which tends to stagnate.

If we look at the tax ratio data, Indonesia is in the lowest position than other ASEAN and G-20 countries. The taxation provisions are complicated, and the overlapping tax regulations will make tax regulations challenging to understand, which can cause difficulties for taxpayers to fulfill their tax obligations. On that basis, this is the reason that Tax reform needs to be carried out.

The level of tax compliance is the most crucial factor in the tax system. If compliance can be realized, then tax revenue will be high. Relatively low tax compliance indicates that the potential for large taxes has not been explored. The level of tax compliance is influenced by the education and understanding of taxes from the community and the tax compliance culture, including the law enforcement system. A more substantial level of taxpayer compliance - both in terms of the number of registered taxpayers

and the compliance ratio - is the foundation for creating sustainable tax revenue.

Currently, the Indonesian state is actively developing infrastructure, which is part of realizing justice for all the people. Development is no longer focused on Java alone but in Indonesia's regions to prosper the Indonesian people. The source of funds obtained to carry out the development comes from tax revenue. Tax revenue is often interpreted as a reliable source of state financing for purposes ranging from routine state spending to state development. Tax revenue is one of the most important sources of state financing and will continue to be improved. One of the Government's efforts to increase tax revenue is by holding Tax Reforms so that tax collection methods can be more effective, tax objectives can be implemented, and tax administration must function effectively and efficiently.

Tax reform is a change in the tax administration system, including reforming the organization, human resources, business processes, information technology and databases, and tax regulations. Changing the way taxes are collected by reforming tax administration improves tax regulations and increases the tax base. The parties affected by the tax reform are taxpayers, tax employees, related institutions, and the public. According to the Directorate General of Taxes, there are five reasons why tax reform needs to be carried out:

1. The low level of taxpayer compliance
2. The tax revenue target increases every year
3. The number of human resources is not proportional to the addition of the number of taxpayers. Difficulty in monitoring and law enforcement
4. The development of the digital economy and technological advances is very rapid
5. Rules that anticipate the development of trade transactions

Tax reform is carried out just like regulations, in general, are enforced. Taxation regulations are a foundation or foundation that is very influential in determining government policy direction in taxation. With a strong foundation, in the form of vital tax base data and information and tax compliance mapping, it is hoped that the tax regulations can improve tax compliance because this foundation is the main asset for determining the future direction of the taxation strategy.

It is hoped that it can increase compliance and state revenue in taxation (Tax Revenue). Tax revenue is the central pillar of the foundation of the Indonesian economy. In implementing tax reform, of course, there are many challenges faced. The biggest challenge of tax reform lies in two aspects: human resources' capability and integrity. Human resources' capability is related to socializing various tax policies and systems to the public. In contrast, human resources' integrity is related to tax officers' behavior who are not yet fully adhering to moral values and professional ethics.

However, the challenges faced in implementing tax reform have also increased in line with digital technology development. Therefore it is necessary to formulate a government strategy in implementing tax reform in the digital era. The right strategy in implementing tax reform in the digital era by increasing the trust and compliance of taxpayers. By increasing the ability and integrity of tax authorization through modernizing the taxation system and controlling human resources.

In addition to that, another challenge faced is the large number of overlapping regulations and authorities that hinder the economy and investment. In providing legal certainty, regulation is needed to amend other laws and simplify regulations to make them more targeted and harmonize laws and licensing regulations. Regulation reform is needed to resolve business licensing barriers, creating substantially linked jobs to the investment ecosystem.

With the description in the background above, there are 2 (two) problems consisting of:

1. How to improve voluntary taxpayer supervision and compliance in optimizing tax revenue in Indonesia?
2. How to implement an efficient and effective Tax Reformation that brings the modern tax administration system to improve compliance?

## II. LITERATURE REVIEW

### 1. The Journey of Tax Reform in Indonesia

After facing the oil crisis, in 1983, the Government made improvements to reduce dependence on revenues, the balance of payments, and employment from the oil and gas sector. So the Government needs tax reform and to increasing non-oil and gas Tax revenues. There are six stages of tax reform that have been and are currently running, namely:

- a. The first tax reforms in 1983-1985
- b. Second tax reform in 1994
- c. The third tax reform in 1997
- d. The fourth tax reform in 2000
- e. The fifth tax reform in 2002-2009
- f. Sixth tax reform in 2020

Since Indonesia's independence, taxation has become one of the pillars of the country's economy. Moreover, during that time, taxation has also improved from decade to decade, following the times' developments and demands. Reform, in general, is a change to a system that has existed at one time.

### Tax Law Reform

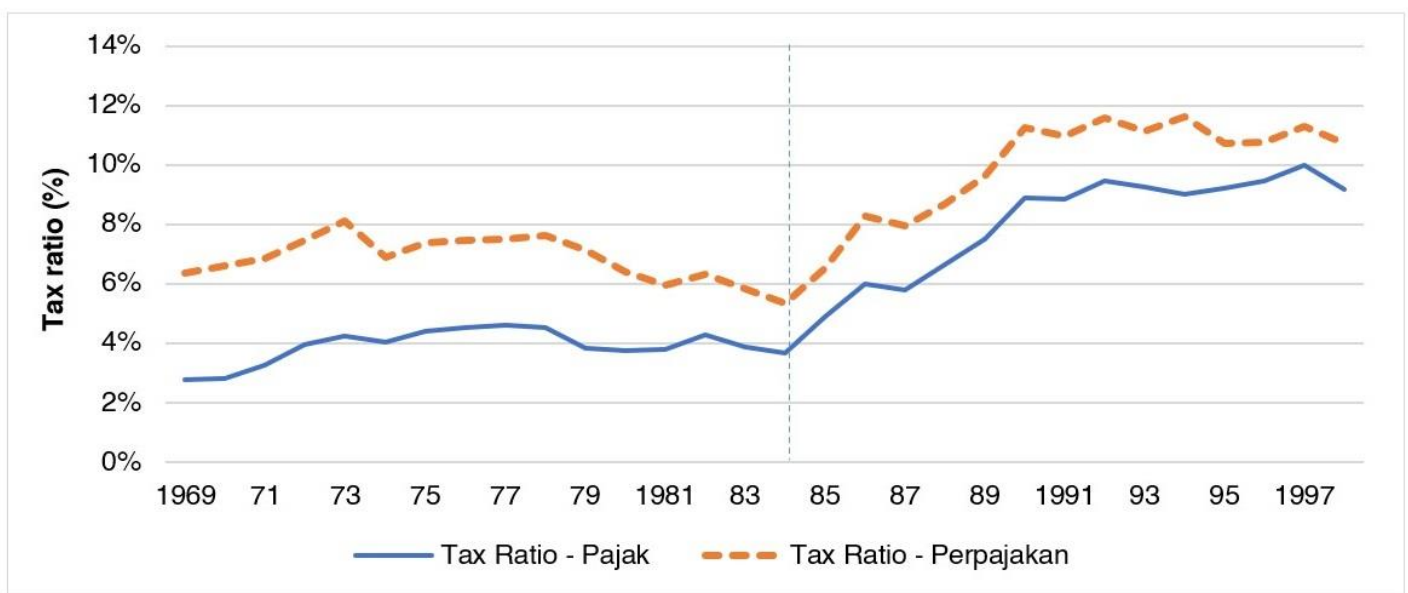
In 1983, the Tax Reformation was first rolled out under the name Reform of the Taxation Law. It is called the Reformation of the Taxation Law because, in 1983, five new laws were issued, which had a broad impact on Indonesia's taxation face. The five new laws made the previous law, which was a product of Dutch colonialism, invalidated. The five laws issued at that time were Law Number 6 of 1983 concerning General Provisions and Tax Procedures, Law Number 7 of 1983 concerning Income Taxes, Law no. 8 of 1983 concerning Value Added Tax for Goods and Services and Sales Tax on Luxury Goods, Law No.12 of 1985 concerning Land and Building Tax, and Law No.13 of 1985 concerning Stamp Duty.

Before the 1983 tax reform, the amount of tax owed by taxpayers was determined by the state through the Tax Inspection Office. With the increasing number of taxpayers and the spirit of being an independent nation, the system for determining the amount of tax owed by the Tax Inspection Office (official assessment) was changed to a self-assessment system. Accordingly, the Tax Inspection Office was changed to the Tax Office. Meanwhile, to increase the competitiveness of the Indonesian economy in particular and support exports in general, and increase public control effectiveness in indirect tax collection,

Sales Tax is replaced by Value Added Tax. Apart from these 2 (two) very significant changes (self-assessment and VAT), the income tax rate has also been lowered from 45% to 35%. The income tax rate structure has been simplified for individual taxpayers or corporate taxpayers. The 1983 tax reform was considered successful, especially in increasing tax revenue and increasing its role in the state revenue and expenditure budget. There are four objectives of the 1984 tax reform. First, increase the tax ratio of non-oil and gas taxes to gross domestic product (GDP). Second, simplify tax law and improve tax system

administration. Third, reduce economic distortions to improve the process of resource accumulation. Fourth, provide a sense of justice for taxpayers, especially the lower class (DDTC Fiscal Research, 2020). The principle is broad-based tax and simplicity. These reforms have changed Indonesia's fiscal posture. Before 1984, tax revenue was only able to contribute 24% of total domestic income. After the 1984 tax reform, its contribution has consistently increased. We can see the performance of Indonesia's tax ratio before and after the tax reform.

**Tax Ratio Indonesia, 1969-1997**



**Source: compiled from various publications of financial notes and APBN (Ministry of Finance) Economic and financial statistics of Indonesia (Bank Indonesia), and statistics of 70 years of independent Indonesia (Badan Pusat Statistik)**

Tax reform has saved Indonesia's fiscal condition, especially when the oil and gas sector can no longer be expected to support state revenues. The 1984 tax reform also resulted in changes in the structure of tax revenues in Indonesia. First, the increasing role of VAT as a money machine. Unlike the sales tax system, VAT that does not result in a cascading effect is considered more neutral and less distortive. Thus, parties who were previously 'hiding' and disobedient under the VAT regime are willing to participate. Second, increased revenue from Income Tax. The Income Tax system is designed to be more modern, fair, and legal certainty. As an illustration, the Income Tax rate is simplified, with only three layers of income. the administrative side of the collection and ensuring compliance, the Government also introduced a final tax system and a withholding tax mechanism, which was again expanded in the 1990s.

From 1991 to 2000, a further Reform of the Taxation Law was carried out, which focused on simplifying taxes. More precisely, in 1994, four laws were issued: amendments from the laws published previously in 1983. namely:

- a. Law Number 9 of 1994 concerning Amendments to Law Number 6 of 1983 concerning General Provisions and Tax Procedures.
- b. Law Number 10 of 1994 concerning Amendments to Law Number 7 of 1983 concerning Income Tax as Amended by Law Number 7 of 1991.
- c. Law Number 11 of 1994 concerning Amendments to Law Number 8 of 1983 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods.
- d. Law Number 12 of 1994 concerning Amendments to Law Number 12 of 1985 concerning Land and Building Tax.

After ten years, this 1983 tax reform was followed by the 1994 and 1997 tax reforms that changed the previous law and

made new laws. In this further Reform, the PPh rate was again reduced, and Final Income Tax was introduced.

However, the 1984-1997 period also could not be separated from a series of problems. The 1994 and 1997 tax reforms were a logical consequence or continued due to evaluating the implementation of previous reforms, significantly implementing the self-assessment principle. It is the nature of taxpayers in any country to try to avoid or downplay their tax obligations. In developed countries in general, the difference is that in developing countries, including Indonesia, efforts to avoid and reduce taxes are pursued by legal and illegal means. Illegal. In developing countries which are generally active in seeking opportunities to enrich themselves by abusing their authority

By realizing taxpayers' and tax officials' behavior, the effectiveness of implementing the principle of self-assessment is somewhat disturbed. The 1994 reform was intended, among other things, to maintain the effectiveness of the implementation of the self-assessment principle, namely by minimizing the interaction between tax officials and taxpayers. Besides, the 1994 reform was intended to apply as broadly as possible the Final Income Tax as long as the conditions were met, increase tax revenue, and cover leaks (corruption, collusion, and nepotism) that occurred.

The application of Final Income Tax is not only simple, and the mechanism is easy; it also provides legal certainty and a sense of justice for taxpayers with similar income. The application of Final Income Tax in addition to facilitating the planning of the amount of tax revenue also because of the cheap tax collection cost and a significant increase in tax revenue. In this period, the income tax was reduced from 35% to 30%, and it was proven that the reduction in tariffs did not reduce state revenues from the taxation sector. Likewise, the tax ratio (ratio of tax revenue to Gross Domestic Product) does not show a decline. Also, the tax expiration period was extended from 5 years to 10 years.

The 1997 tax reform was part of the 1994 tax reform so that the principles, basis, and objectives were the same as the 1994 tax reform. While the 1997 tax reform was an integral part of the 1994 tax reform package, five laws were passed, namely: (Bawazier, 2011)

- a. Law Number 17 of 1997 concerning Tax Dispute Resolution Bodies.
- b. Law Number 18 the Year 1997 regarding Regional Taxes and Regional Retributions.
- c. Law Number 19 the Year 1997 concerning Tax Collection by Force Letter.
- d. Law Number 20 of 1997 concerning Non-Tax State Revenue.
- e. Law Number 21 of 1997 concerning Fees for Acquisition of Rights to Land and Buildings (BPHTB).

The five laws mentioned above are intended to improve the 1983 and 1994 tax reforms, significantly curb state revenues at the central and local government levels and improve public services.

- a. Law Number 17 of 1997 concerning the Tax Dispute Settlement Department (BPSP)

Before establishing the Tax Dispute Settlement Agency, the one who decided on tax appeal was the Tax Advisory Council, whose members consisted of senior tax experts and judges appointed by the Supreme Court. The Tax Dispute Settlement Agency creating a tax court that is cheap, easy, fast, and provides legal certainty for both taxpayers and state revenue. Therefore, to

avoid misuse, the tax appeal should not delay the payment of the tax owed. Decisions are not decisions of state administrative officials and are final. The purpose of BPSP is intended to not add to the accumulation of cases in the Supreme Court. BPSP must issue a decision on tax appeal within 1 (one) year, and if it exceeds that time, the appeal is declared accepted. Another important thing is that in the appeal trial process at the Tax Dispute Settlement Agency, the Taxpayer position and the Directorate General of Taxes are guaranteed to be in the same position.

- b. Law Number 18 the Year 1997 regarding Regional Taxes and Regional Levies

Before enacting Law Number 18 of 1997, there were many levies in the regions, both determined through regional regulations and other legal bases. These levies are as taxes or levies and often overlap with various other public/investors' burdens so that they need to be disciplined. With the argument to increase local revenue, the existing levies are often inefficient and ineffective, disrupt the flow of goods between regions, create a sense of injustice in the community, and disturb the community's comfort. Law Number 18 the Year 1997 aims to curb the various anomalies mentioned above without reducing the Regional Original Revenue revenue, even though there have been many cuts in regional levies.

- c. Law Number 19 the Year 1997 concerning Tax Collection by Force Letter

Law Number 19 of 1997 is a complement to Law Number 9 of 1994, including changes in the organization of the Directorate General of Taxes or the context of clarity and confirmation of the definition of confiscation, auction, hostage, and objections for the smooth and easy implementation of tax collection by force letter.

- d. Law Number 20 of 1997 concerning Non-Tax State Revenue (PNBP)

As long as there is no law regulating non-tax state revenue (PNBP), hundreds of state levies are not included in the State Treasury and therefore not included in the state revenue expenditure budget (APBN). Because it is outside the APBN (off-budget), the money's income and use do not follow the DPR budget approval mechanism or its supervision. The amount of PNBP is increasingly significant and is practically found in all ministries or non-ministerial government agencies. Because it is off-budget, this PNBP is prone to abuse. This PNBP was later known as one of the primary sources of illegal or illegal government bank accounts whose control has not yet been completed. Law Number 20, the Year 1997, has stated that all PNBP without exception must be intact and immediately deposited into the State Treasury account. Any existing balance funds must be transferred to the State Treasury as soon as possible. This law also regulates that within five years, all PNBP must be managed and transferred to the State Treasury / APBN.

- e. Law Number 21 of 1997 concerning Fees for Acquisition of Rights to Land and Buildings (BPHTB)

Acquisition Fee for Land and Building Rights is a new type of tax. Like the PBB, the central Government (Djp) is given the authority to manage and collect land and building rights fees. However, all the proceeds are submitted to the Local Government as a profit-sharing tax. This tax is borne or paid by the buyer of land and buildings. For the sake of fairness, there is a particular amount/value of this tax object which is not subject to tax. For ease of implementation, the calculation of the number of Fees for Acquisition of Rights on Land and Building (BPHTB) uses the

basis of the Tax Object Selling Value (NJOP) with a rate of 5% of the NJOP after deducting a certain amount not taxable.

### **Bureaucratic Administration Reform and Legislative Revolution**

Bureaucratic Reform began in 2000 to 2001 in preparation for administrative taxation volume I.

In 2000, the Government again issued a series of laws to amend existing laws, namely:

1. Law Number 16 the Year 2000 concerning the second amendment to Law Number 6 the Year 1983 concerning General Tax Provisions and Procedures

2. Law Number 17 the Year 2000 regarding the third amendment to Law Number 7 the Year 1983 concerning Income Tax

3. Law Number 18 of 2000 concerning the second amendment to law Number 8 of 1984 concerning Value Added Tax on Goods and Services and Sales Tax on Luxury Goods

4. Law Number 19 the Year 2000 regarding Tax Collection by Force Letter

5. Law Number 20 the Year 2000 regarding Fees for Acquisition of Land and Building Rights

6. Law Number 34 the Year 2000 concerning amendments to Law Number 18 the Year 1997 concerning Regional Taxes and Regional Retributions

The tax reform includes three pillars: Tax Policy, Tax Administration, and Tax Law (Prastowo, 2017). The conclusion that the tax reform before 2000 was still not comprehensively reforming the tax administration (Tax administration) was still limited to reforms in Tax Policy and Tax Law. Although changes in the organizational structure that prioritize service aspects to taxpayers have been started at the beginning of the tax reform in 1983, marked by the change of the Tax Inspection Office to become the Tax Service Office (KPP)

However, in the 2000 taxation reforms, reforms in the administrative sector have begun to be taken seriously, marked by the Director-General of Taxation making the "Knowing your Taxpayers" program in the context of overseeing the 100 largest taxpayers, the Directorate General of Taxes (DGT) provides intensive services and supervision of The 100 largest taxpayers of each Tax Office, this concept gave birth to the emergence of the Account Representative (AR) in 2002

Administrative Reform becomes a role model for tax reform in Indonesia in the following years. To provide better service and supervision, the Directorate General of Taxes (DGT) requires adequate information technology support, and the 1994 tax information system is deemed inadequate to use because of weaknesses. In the Taxpayer's reporting system, manual reporting requires tax officers to re-record, which is prone to recording errors and requires a lot of human resources, so that in the early stages, the Directorate General of Taxes (DGT) develops an electronic-based program that aims to improve services and efficiency.

Taxation reform in Indonesia continues to be carried out and updated. In 2016, the Government implemented a Tax Amnesty Policy with Law Number 11 of 2016. The Tax Amnesty Policy has

also been implemented in many countries such as Australia, Belgium, Canada, Germany, Greece, Italy, Portugal, Russia, South Africa, Spain. By saving "money" in these tax-free countries, the potential for state revenue from taxes will also disappear. Therefore, to attract taxpayers' hearts, the Government implements a tax amnesty program hoping that taxpayers who have strayed their "money" abroad can divert their savings into the country. Thus, state revenue from taxes can increase and contribute significantly to domestic economic development, and this policy aims to create a tax base. Tax Amnesty is carried out to withdraw "money" from taxpayers allegedly kept secret in tax-free countries.

According to the times, the development of the global economy and dynamic digital transactions, besides that, the database owned by the Directorate General of Taxes (DGT) has grown more significant after the Tax Amnesty in 2016 and the Automatic Exchange of Information (AEOI) program. A great hope for tax reform this time is that the Directorate General of Taxes (DGT) can be transformed into a better organization. The Directorate General of Taxes (DGT) must also increase the tax and taxpayer compliance to produce optimal state revenue.

Three years after the implementation of the tax amnesty took place, the Government again issued a controversial law that was formulated with an omnibus law scheme. The Government needs to take quick and extraordinary steps to save the economy by including tax clusters in the Omnibus Law concept (UU Cipta Kerja, named in Indonesia). Because of the Spread Pandemic. Covid-19 in most countries worldwide, including Indonesia, has resulted in an economic shift resulting in a slowdown in national economic growth. The 2020 tax reform is contained in two regulations. First, Law Number 2 of 2020, the implementing rule of Government Regulation in lieu of Law (Perppu) Number 1 of 2020 as the Government's response to tackling the pandemic's economic and financial impacts. Second, the Omnibus Law on Job Creation no. 11 of 2020, the taxation cluster, is momentum for bureaucratic Reform for a giant leap in the national economy; besides that, the Job Creation Law is a legislative revolution process in Indonesia.

The background of the birth of the Taxation cluster in the Job Creation Law is that it aims to facilitate doing business in encouraging investment with four main pillars, namely:

- Increase Inventory Funding
- Encouraging compliance of taxpayers and taxpayers to pay voluntarily
- Increase Legal Certainty
- Creating climate justice for doing business in the country.

Although Indonesia adheres to a civil law legal system, Omnibus Law was born from the standard law legal system's tradition. However, there is nothing wrong with Indonesia breaking through this boundary space in the digital ecosystem and global governance. The idea to start using the Omnibus Law is motivated by the number of laws that hinder the ease of doing business and investing in Indonesia. So the law is needed to amend other laws and simplify regulations to make them more targeted and harmonize laws and regulations related to licensing in various sectors to resolve business licensing barriers and create jobs that are substantially linked to the investment ecosystem.

The Omnibus law attempts to row once and over two or three islands, with one regulation being deliberately formed at

once to replace more than one other existing regulation. This concept can only replace some articles in one regulation and simultaneously revoke all other regulations' contents.

The tax reforms carried out by Australia and New Zealand can be a reference for the Indonesian Government. A tax researcher from the University of Canterbury, New Zealand, Adrian Sawyer, said that Australia and New Zealand's primary enthusiasm for tax reform is to reduce the tax gap so that tax revenue can be optimal. Organizational systems and policies reorganized.

Australia and New Zealand have been conducting a reform process for the last 30 years. The steps taken have almost the same characteristics. Both countries have been conducting various reforms. Then, they also both reviewed the tax administration system to reduce the cost of compliance of taxpayers in carrying out their tax obligations. The two countries' tax reform measures aim to strengthen the tax administration system to make it more integrated. Thus, taxpayers become easier when dealing with tax authorities, from payment to tax reporting.

Tax Reform in Australia and New Zealand aims to reduce the tax gap, both in taxpayer compliance and government regulatory factors. For example, for New Zealand, the tax gap ranges from 6.8-11.3% of gross domestic product (GDP). Australia has a tax gap ranging from 7-8% of GDP when referring to reports for the 2015-2016 period. The two countries' tax reform measures are also close together. New Zealand began the reform process in 1993. One year later, Australia began a process of tax reform (Setiawan, 2020)

It took Australia at least 25 years to reform and is not yet complete. Meanwhile, New Zealand needs a relatively shorter time, namely 15 years, due to limited tax reform. tax reform is carried out in stages

As much as 70 percent of Australian government revenue comes from individual and corporate taxes.

This document highlights Australia's dependence on income from individual and corporate taxes and not from the goods and services tax (GST).

## 2. Modernization of Tax Administration

To adjust time changes, the Directorate General of Taxes continues to carry out digital transformation to improve service quality and increase taxpayer compliance supervision effectiveness. In 2005, the Directorate General of Taxes carried out tax administration reforms in the form of modernization of tax information technology that utilizes technology, namely e-systems including e-registration, e-filing, e-spt (electronic notification letter), and e-billing. This technology modernization is one of the essential pillars in tax administration reform because it will increase tax ratio, tax avoidance, and evasion and encourage taxpayer compliance. This Reform aims to improve the administrative system, which makes the Directorate General of Taxes stronger, more credible, accountable, effective, and efficient, based on the issuance of Presidential Regulation (Perpres) Number 40 of 2018 concerning Reform of the Tax Administration System, which was ratified on May 3, 2018.

The demand to maximize the potential for tax revenue is the reason for the modernization of taxation. This modernization of taxation can take the form of improvements to tax policies and the tax administration system. Therefore, modernization is inevitable.

Through this, taxpayers are also required to be more obedient and continue to play an active role in carrying out taxation activities and compliance and activeness of the taxpayers themselves.

The continuous improvement of tax administration is expected to improve the national economy. To achieve this goal, it is necessary:

1. Increase in Investment
2. voluntary compliance of Taxpayers,
2. legal certainty, and
3. Equal justice in doing business

### Increase in Investment

Indeed, the corporate income tax rate reduction has made the "distance" between Indonesia's corporate income tax rates less and less. This reduction is positive because the risk of profit shifting through various schemes such as transfer pricing manipulation, thin capitalization will decrease.

The Job Creation Law offers a reduction in the rate for Corporate Income Tax (PPh), which was 25 percent decreased gradually to 22 percent in 2021 and 2022 then will decrease again to 20 percent in 2023 onwards as well as a reduction in the corporate income tax rate for Go Public Taxpayers. Those newly listed on the stock exchange are reduced the tax rate of 3 percent from the prevailing general rate.

However, a reduction in the corporate income tax rate can impact tax revenue in the short term. Moreover, about 1/3 of the non-oil and gas PPh revenue comes from Corporate Income Tax. The Government itself has estimated foregone revenue of Rp. 52.8 trillion to Rp. 87 trillion with the reduction in tariffs (DDTC FISCAL RESEARCH, n.d.). Therefore, to anticipate revenue forgone above, various breakthroughs in expanding the tax base must be made.

This strategy aligns with essential lessons from the recent tax reform trend known as the broad base low rate. Namely, the reduction in tariffs is accompanied by an expansion of the tax base (OECD Tax Policy Reform, 2017). This strategy was carried out, for example, by Japan, Spain, Britain, and several other OECD countries. In these countries, an expansion of the tax base based on consumption and personal income is carried out to offset the tax relaxation provided (OECD Tax Policy Reform, 2018).

With the reduction in tax rates for corporate taxpayers, it is hoped that it can attract investors to invest by building various large-scale businesses that can absorb labor and ultimately increase Indonesia's Domestic Income (GDP). The reduction in the tax rate to 20 percent makes Indonesia the same as Vietnam and Thailand in terms of the amount of corporate tax set, and this is a fair offer for foreign investment, making Indonesia the state of choice to invest. Besides, the Omnibus Law eliminates income tax on dividends from within the country and abroad to increase investment funding. It aims to provide space for domestic and foreign funding to increase investment.

### Voluntary compliance of Taxpayers

Tax compliance is the most critical factor in the modern tax system. Whatever the tax system and administration are used, tax revenue will be high if compliance can be realized. On the other hand, if the compliance cannot be realized and applied to the Taxpayer, the system and administration will not receive high tax

revenue. The tax authorities must be able to build a reasonable tax compliance strategy.

From the data provided by the Directorate General of Taxes regarding the level of tax compliance in Indonesia in 2012, it can be seen that the level of tax compliance in Indonesia is still deficient, namely for individual taxpayers only 15% and for corporate taxpayers at 10%. This figure obtained the number of taxpayers registered with the NPWP compared to the taxpayers who report the SPT. Compared with neighboring countries, namely Australia, Indonesia is very far behind in tax compliance levels. (Indraswono)

According to the ATO (Australian Taxation Office), which is the center of taxation in Australia, the level of tax compliance in Australia is very high, namely for individual or ordinary taxpayers known in Indonesia with an individual taxpayer of 93% and for corporate taxpayers or commonly known in Indonesia, Indonesia, with a corporate taxpayer of 82%. This figure is seen from the number of taxpayers who register a TFN (Tax File Number) / ABN (Australian Business Number) or what we know in Indonesia as a TIN compared to taxpayers who pay taxes. As we know, Australia is the smallest continent; even though it is called a continent, the population of Australia is not bigger than Indonesia. With a population no more significant than Indonesia, Australia can take full advantage of its tax potential. (Indraswono)

Tax compliance is a classic problem facing tax authorities around the world. Efforts to improve tax compliance have also long been a concern of tax authorities. Tax compliance can be defined as a taxpayer's willingness to comply with tax regulations in a country.

For example, in some countries in the United States, Australia, and Canada, tax compliance generally refers to taxpayers' ability and willingness to comply with tax regulations, report income appropriately, and pay taxes correctly and promptly. Meanwhile, referring to the IBFD International Tax Glossary, tax compliance is a procedural and administrative activity required to fulfill taxpayer obligations based on applicable tax regulations.

In general, tax compliance can be divided into two. First, administrative or formal compliance includes the extent to which taxpayers comply with tax procedural and administrative requirements, including reporting requirements and time to submit and pay taxes. Second, technical or material compliance refers to calculating the correct amount of tax burden (OECD, 2001). Material tax compliance can also be defined as when the Taxpayer meets the taxation material provisions, namely, according to the tax law's content and spirit.

Compliance can be identified based on taxpayer compliance in registering, taxpayer compliance to report notification letters (SPT) correctly, completely, and clearly, and compliance in paying tax receivables.

The Directorate General of Taxes (DGT) also uses these three tax compliance indicators as a basis for analyzing taxpayer compliance risks. Based on these analysis results, DGT then compiles a compliance map to create a treatment option scheme for taxpayers based on taxpayer compliance behavior and the capacity of its resources.

Besides, much research on tax compliance has been carried out theoretically and empirically during the last four decades. Based on this research, in general, several factors influence taxpayer behavior, which can be classified into five categories:

1. Prevention measures (deterrence), for example, the intensity of tax audits, the risk of detection, and the level of sanctions imposed. depart from the concept that the risk of detection and sanctions can change tax compliance behavior.

2. The norms or values that apply, both those held by individuals and social norms.

3. Opportunities.

4. Fairness related to results or procedures and trust in both the Government (tax authorities) and other taxpayers.

5. Economic factors include all factors related to general economic conditions, business or industrial conditions, and taxes' value to be paid.

One of the tax administration's modernization objectives is to achieve a high level of tax compliance (tax compliance). Compliance, the things that cause non-compliance, and efforts to improve compliance are essential issues in developed and developing countries. Compliance is essential because non-compliance simultaneously creates an effort to avoid taxes, both with fraud and illegality called tax evasion and tax avoidance without fraud, and is carried out legally called tax avoidance.

### **Legal certainty**

To create legal certainty, efforts to simplify various regulations, which are generally convoluted and overlapping, provide legal certainty for Indonesia's business world. For example, in Law Number 13 of 2003 concerning Manpower, several articles hinder and frighten investors into investing in Indonesia. The form of investment is part of development and efforts to achieve social justice for all Indonesian people.

Other areas that are deemed necessary for regulatory simplification are the Taxation Law, which overlaps with several regulations at both the central and regional levels, the MSME Empowerment Law is not yet optimal because it has many uncertainties for business actors, as well as other law products that are still experiencing the same thing.

This condition creates uncertainty in legal protection for various forms of state activities that are useful for creating justice and prosperity for all Indonesian people. On the other hand, the Government, which is the mandate, is obliged to comply with the applicable laws, even though these laws are subject to uncertainty and interpretation. This condition raises problems for the Government trying to carry out the mandate of the 1945 Constitution.

The Omnibus Law policy is the only way out to overcome existing overlapping regulations because it is a law made concerning one central issue related to the realization of the ideals of a state, which will change several related laws at once so that regulations become more straightforward and more comfortable to implement

### **Equal Justice in Doing Business**

In Indonesia, the development of technology has become very fast; the emergence of computer technology, followed by the emergence of the internet, has significantly impacted human life. Where humans are very dependent on technology, and this makes technology a basic necessity for everyone. Research in scientific writing uses a normative legal writing method, namely legal research that focuses on a statutory approach, an analytical approach, and a facts approach. Facebook in Indonesia feels that

it is not yet a Permanent Establishment in Indonesia, even though Facebook already has an operational office in Indonesia. Regarding tax imposition, electronic trading transactions are subject to tax following the prevailing laws and regulations in Indonesia. Business actors and entities that carry out electronic trading must comply with Indonesia's taxation provisions because they are deemed to fulfill a physical presence and carry out endless business activities in Indonesia.

The implementation of the concept of significant economic presence in the imposition of income tax (PPh) or electronic transaction tax (PTE) / Digital Services Tax contained in Law No.2 of 2020 will continue to respect the agreement in the double tax avoidance agreement (P3B). As for the imposition of PPh or electronic transaction tax, it is deemed necessary to be regulated to provide PPh taxation rights for Indonesia on the income of trading business actors through an overseas electronic system (PMSE) who earn income from Indonesian consumers.

However, the imposition of taxes on digital companies is considered to be discriminatory. In the US-ASEAN Business Council (US-ABC) public comments, the association of US companies operating in Southeast Asia also voiced their objections. (Wildan, 2020) PTE is considered to be likely to impose double taxation and violate the agreed tax treaty. Norms of the significant economic presence or significant economic presence in Law No. 2/2020 are also considered by US-ABC to be inconsistent with international tax best practices.

Many countries have suffered from these electronic transactions with the practice of planning, avoidance, and tax evasion or commonly called Base Erosion and Profit Shifting (BEPS) by multinational companies, one of which is from income from providing digital or Over-The-Top (OTT) services. For example, Netflix, Facebook, and Spotify. The issue of digital economy taxation has been echoed for a long time since the OECD formulated the 2013 BEPS action plan as a strategy to counter BEPS practices.

The Digital Economic presents a challenge in VAT collection where end consumers obtain goods, service utilization, and intangibles from foreign suppliers. In Indonesia, PPN adheres to the destination principle; therefore, the rapid pace of the Digital Economy has increased the potential losses of state revenue due to the use of technology in every delivery and utilization of goods/services, especially in cross-border transactions. Ineffective VAT collection on cross-border transactions will increase the risk of unfair business competition against domestic retailers required to collect VAT on sales to end consumers. Therefore it certainly creates injustice for taxpayers, especially Taxable Entrepreneurs who sell their products more expensive due to VAT compared to foreign suppliers who can sell their products free of VAT imposition.

The Government must work hard in facing the challenges of unfair business competition practices due to the rise of digital transactions in this 4.0 era. Without a clear legal umbrella regarding the practice of competitive digital market business, the digital market, which should increase national economic growth, could backfire. A clear legal umbrella is needed to protect consumers' and business actors' rights and obligations to ensure healthy business competition practices.

### III. CONCLUSION

As a country that adopts a self-assessment system, the Government of Indonesia trusts taxpayers to calculate, deposit, and report their tax obligations. That way, taxpayer awareness and compliance in carrying out tax obligations is the spearhead of obtaining optimal revenue. However, it has given the trust to taxpayers. The Government also still needs to carry out supervision so that tax compliance can be better. In addition to the monitoring methods carried out, the Government expects voluntary taxpayer compliance that requires awareness and compliance from each Taxpayer. Currently, the awareness and compliance of taxpayers in Indonesia still need to be improved. It can be challenged for the Government to provide adequate education so that they are willing to pay taxes. In this case, the Government needs to prepare useful resources, satisfying services, an uncomplicated bureaucracy, fast, easy, and straightforward information to attract taxpayers. Until now, public awareness of paying taxes has not reached the level as expected. Generally, people are still cynical and do not believe in the existence of taxes because they are considered burdensome, in addition to the lack of public knowledge of the functions and uses of taxes, as well as the complexity of tax administration, for example, calculating, paying and reporting them. However, there are still efforts that can be made to be fully aware of paying taxes, which is not impossible. When the public has awareness, paying taxes will be done voluntarily instead of compulsion, encouraging taxpayers' compliance and paying taxpayers voluntarily. By promoting this awareness of taxes, it is hoped that Indonesia will lead to the prosperity that has been expected. The slogan "PAY THE TAXES AWARE OF USE" that taxes are the country's primary income, which is designated and managed transparently and accountably for the benefit of its people.

The social and economic life of a developing country and society will impact taxes so that taxes have a dynamic character. Increased revenues, improvements, and fundamental changes in all aspects of taxation are the reasons for tax reformation from time to time in improvements or improvements in organizational performance, both individually and in groups. Institutions to make it efficient, economical, and fast, so it is expected that the potential for available tax revenue is expected. The principle of social justice can be collected optimally. Therefore, tax The social and economic life of a developing country and society will impact taxes so that taxes have a dynamic character. Increased revenues, improvements, and fundamental changes in all aspects of taxation are the reasons for tax reformation from time to time in improvements or improvements in organizational performance, both individually and in groups. Institutions to make it efficient, economical, and fast, so it is expected that the potential for available tax revenue is expected. The principle of social justice can be collected optimally. Therefore, tax administration reform must be carried out continuously so that service functions can be provided optimally to the public. With an excellent administrative system, it is hoped that the Government will optimize the realization of tax revenues and improve tax compliance. One form of tax reform that is being encouraged is the modernization of tax service administration through information and communication technology. "The more advanced the society and the Government, the higher the awareness of paying taxes." However, it does not stop there; they are increasingly critical in addressing taxation



issues, especially regarding policy materials in the field of taxation, for example, the passing of the Omnibus Law with the hope of encouraging Indonesia to become a country. Advancing, by improving implications, harmonizing regulations, and permits, with the hope of increasing quality investment and creating jobs while empowering small and medium enterprises that positively affect the economy. This effort to increase the economy is a strategic plan in increasing the tax ratio

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