New Perspective of Indonesia Comprehensive Reform: Integrating Corruption Eradication and Tax Optimisation Agenda
Background

Tax Compliance in Indonesia
Review of Indonesia Tax Amnesty Program
Corruption Perception in Indonesia
Indonesia Has Low Tax Revenue Performance 2006-2016
the target has never been achieved, except in 2008

Source: State Budget Report
Indonesia Has Low Tax Revenue Performance 2006-2016

tax ratio is relatively low...

Indonesia Tax Ratio is calculated by Central Tax Revenue / GDP

Source: http://data.worldbank.org/indicator/
Indonesia is still haunted by low compliance of both individual and corporate taxpayers...

Source: DGT, MoF
Indonesia faced various mega-corruption scandals...
involve government officials from executives, legislatives, and judiciaries, have caused the tax fund wasteful

Who are they???
There are many bribery and extortion case that involve public officials of DGT institutions, such as:

- **Bribery Case**
  - Gayus Tambunan; Dhana Widyatmika; Bahasyim Assifie; Mohammad Dian Irwan Nuqisra and Eko Darmayanto; and Tommy Hendratno.

- **Extortion case**
  - Pargono Riyadi; Herry Setiadjji, Indarto Catur Nugroho and Slamet Riyana.

Corruption scandal occurred recently involving Handang Sukarno, from Directorate of Law Enforcement, DGT.

Recently the e-KTP corruption cases erode government fund about IDR 2 trillion.

In 2016, **Indonesia faces many corruption scandals >> about 482 case**

With **total revenue losses IDR 147 tn**

*(ICW Annual Report, 2016)*
Indonesia Corruption Perception Index

tax ratio vs corruption perception index 2012-2015

## Corruption Potential based on Sector in Indonesia

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*Score: Indonesia Transparency International (Corruption Perception Survey 2015)*
Bribery Interactions at Vertical Institutions

Source: Indonesia Transparency International (Corruption Perception Survey 2015)
Problem: Low Tax Compliance

- Lack of enforcement derived from lack of DGT capability to optimize tax revenue.
- Inadequate number of tax officials, which in 2015 there were only 37,987. From that number, tax auditors were only 4,552 (Directorate General of Tax, 2015).
- Limited access to financial account because of confidentiality as stipulated in Law No. 10 Year 1998.

Hosmer (1995), trust is an important social factor due to its significant impact on individual behavior, relationships, and economic exchanges.

Andreoni et al. (1998), social factors play an important role in tax compliance decisions.

Zucker (1986, p. 56), trust is vital for the maintenance of cooperation in society and necessary as grounds for even the most routine, everyday interactions.

Lewis and Weigert (1985, p. 968), trust is a collective attribute that is driven by the relationships of people within a social system and is based on a cognitive process which allows differentiating persons and institutions that are trustworthy from the ones that are not.
Why people are losing their trust on Government???

Participation level of taxpayer in fulfilling their tax liability are strongly affected by their perception on government, whether the government free from corruption practice (Bekaoui:2008), provide the best service (Togler: 2007)
Disharmony Between Anti-Corruption Law and Other Regulation

Need to amend and harmonize all of those regulations

Any person who violates the provisions of the Act which expressly states that the violation of the provisions of the Act such as corruption applicable provisions laid down in this Act (Arti. 14 Anti Corruption Act)

Supreme Court Law No. 13 of 2016 concerning Procedure of Handling Criminal Act for Cooperation

KUP Law

Law No. 8 of 2010 concerning Countermeasure and Eradiction of Criminal Act of Money Laundering

Other Taxation Law
What’s the matter with Anti-Corruption Law?

Anti-Corruption Law is only for state officials.

It is unable to reach private sector, both for individual or corporation who causes harm the state finance or the economy of the country.
Optimal Tax Revenue

Tax Compliance

Excellent bureaucracy, Integrity and Professional Institutions.

Social Capital

Tax Payer Consciousness
The aim of this paper

low level of tax compliance in Indonesia

lack of trust to the government

Does corruption, especially corruption in tax sector affect the level of tax compliance in Indonesia??

KPK

DGT

How the synergy between Corruption Eradication Commission (KPK) and Directorate General of Tax (DGT) should be established in order increase tax compliance level?
THEORY OF TAX COMPLIANCE
and its relation with corruption
Taxpayer non-compliers are rational individuals. They seek to maximize their own well-being, but through illegal instead of legal means.
Slippery Slope Framework  
(Kirchler, Hoelzl, and Wahl 2008)

"Power of Authority"  
"Trust in Authority"

Quasi Voluntary:
• Perceptions to the government, whether free of corruption (Belkaoui & Riahi, 2008),
• Participative in the preparation of tax legislation (Torgler 2005),
• The strength of the overall construction with the tax system (Brautigam, Fjeldstad, & Moore, 2008).
Solutions by the Government to gain public trusts

- enacted Law No. 31 Year 1999 about Corruption Eradication as amended by Law No. 20 Year 2001 (Anti-Corruption Law)

- formed a special agency dealing with corruption cases, KPK through Law No. 30 Year 2002 about the Corruption Eradication Commission.

KPK is an independent state institution that is free from influence of any authority in carrying out its duties and authorities. So far, KPK is one of government institutions that most trusted since its considered high integrity, neutral from conflict of interests, and consistent in performance.
Breakthroughs created by KPK in 2016

Increasing the deterrent effect by adding the prosecution intensity including *Operasi Tangkap Tangan* (OTT). In 2016, OTT by KPK is the most OTT of KPK history.

Integration at the Coordination and Supervision of Prevention by providing prosecution field. As the result, the institution will be able to obtain more data and facts on the target area program.

Launching e-LHKPN application. This application provides facility to state officials at remote areas to report his/her wealth without coming to the capital city.

*Source: Annual Report of KPK 2016*
Proposed Solutions:
Integration of Combating Corruption And Improving Tax Compliance
Harmonization of Anti-Corruption Law and Tax Law

Corruption

- Inversely proportional to Tax Compliance

Tax Compliance

- Directly proportional to Law Enforcement

Law Enforcement

- Not the only one factor, but these factors remain important

Corruption Case

- Inversely proportional to Taxpayer’s Trust to DGT

Taxpayer’s Trust to DGT

- Directly proportional to Law Enforcement

- Inversely proportional to Corruption Case
Need KPK’s role to eradication of corruption in taxation sector

legislation that underpins the existence and execution of their duties stand alone

Tax: biggest instrument of the state income prone to be abused
Corruption Meaning in Anti-Corruption Law

Any person who acts unlawfully to enrich themselves or another person or a corporation that is detrimental to the state finance and economy of the country (Art. 2)

"Any person with the intention of enriching themself or another person or corporation, abuse of authority, opportunity or means available to him because of the position or positions that could harm the state finance or the economy of the country ..." (Art. 3)

Article 1 KPK Law

"Corruption Eradication a series of actions to prevent and combat corruption through the efforts of coordination, supervision, monitoring, investigation, prosecution and examination in court, with the participation of community based regulation applicable"

Preventing Coordination, Supervision, Monitoring

clause “State Economic” should be cleared to be space to accommodate the corruption in taxation areas

does not include fraudulent schemes and tax fraud that causes state financial loss
Cooperation of DJP, KPK, PPATK, and OJK

Institute, Government, Institution, associate, and other authorities (ILAP)

ILAP

Taxpayer

DGT

Article 34
- Examination
- Investigation
- Billing

KPK

Coordination-Supervision
Taxpayer Suspect

PPATK
Tax Analysis

Feeding Data/Accurate Analysis

OJK

Open Account Submission
Permission
- SOP correction → effective
- Forum Coordination
Akasia makes it easier to access the suspicious financial transaction for examination, investigation, and billing.

**Constraints:**

- DGT still under the Ministry of Finance
- Banking secrecy
Establishment of special purpose of Tax Office for taxpayers who will submit Wealth of State Officer Report (called as LHKPN)

Examination and/or investigation of taxpayer involved in corruption and already convicted by permanent legal force
The Government should also considering DGT to conduct joint audit with other institutions that have investigators...

Moreover, DGT officials should be protected by law in collecting tax / conducting audit from rogue taxpayers.
Organization Transformation

President

Ministry of Finance

DGT

DG Customs and Excise

Revenue Authority

Credible
Accountable

Authority to manage own Budget, human resource, and organization

responsibility

responsibility
TAX AMNESTY AS BEGINNING MOMENTUM OF COMPREHENSIVE REFORM AGENDA
Participant of tax amnesty program did not reach the target. Moreover, this number was smaller than participant of Sunset Policy in 2008, which approximately 5.6 million new taxpayers (Directorate General of Tax, 2009).

In addition, low amount of repatriated asset commitment, at Rp147 trillion, under the target of Rp1000 trillion.

Source: DGT, MoF
2016 tax amnesty is the bridge toward comprehensive tax reform that not only related to tax law, but also integration of the tax aspects in Anti-Corruption Law.
CONCLUSION AND POLICY RECOMMENDATION

The Anti-Corruption Law and KPK become important to be paid attention to improve tax compliance.

To integrate anti-corruption and tax optimization agenda, the government needs to revise the Anti-Corruption Law and Tax Law.

Governments need to design a new structure of coordination between government institutions, including KPK, DGP, Indonesia Financial Service Authority (OJK), and Indonesian Financial Transaction Reports and Analysis Center (PPATK).

Redesign the architecture of budget policy by implementing earmarking model into specific public sector.

By bringing this comprehensive reform agenda, it will be an effective strategy to increase the level of tax compliance because in the same time, the corruption eradication agenda, the strengthening of tax administration capacity, the quality of government expenditure, and better coordination of government institution will increase the level of taxpayers’ trust.
THANK YOU