

# Indonesian Tax Administration Reform:

## A Paradigm Shift to Good Governance Practices

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### Abstract

Over the last 20 years, tax reforms have been conducted three times in Indonesia but those reforms did not have good governance contents. The recent reform infused the good governance elements into the reform. This study found the reform was successful in terms of revenue target achievement but not of tax compliance. While for good governance, the question remains on the sustainability of the reform and consistency regarding implementation of the reform programmes due to a gap between the concept of capacity building and the implementation of the process, which involves human resource factor.

*Keywords: tax reform, capacity building, good governance*

## I. Introduction

This study tries to synthesize and analyze the experience of recent tax administration reform in Indonesia. This paper is based on two times-fieldworks conducted in Indonesia and utilized data from the Directorate General of Taxes (DGT). The study has benefited from observations and discussions with key members of the DGT Modernization Team. In addition to interviews with tax officers and Ministry of Finance (MOF) staff, interviews were also conducted with business and NGO people.

Tax reforms, including administration reforms have been conducted in Indonesia since 1980s. Firstly, in 1984 Indonesia moved from an official assessment to a self-assessment system and implemented VAT in the following year. Following the reform, Indonesia experienced a sustained boom in domestic and foreign investment and non-oil revenues increased substantially.<sup>1</sup> Secondly, in 1994, Indonesia revised the 1980s' tax reforms for intensifying tax collection, increasing the number of taxpayers, closing loopholes, and restructuring the tax bracket in order to increase capital inflows. Thirdly, in 2000, Indonesia amended the tax law, which focused on broadening taxable goods and tax areas.

According to Asher (1998: 138), tax compliance has been always one of core issues in Indonesian tax reform, however practically the main drive for the reform has been always tax revenue. At the initial

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stage of 1980s' tax reform, the main concern of the Government of Indonesia (GOI) was the inefficiency of tax system but then the concern shifted to how to increase tax revenue (Gillis 1989: 91). It seems that 1980s' tax reform was a response to 1980s' serious crisis in economy that came later (Ali Wardhana in Subiyantoro (ed.) 2004: 17) or as precautionary action for not having reliable oil revenue anymore (Prawiro 2000: 320-321).<sup>2</sup> 1980s' tax reform eliminates specific tax incentives but the 1994s' reintroduced them for encouraging investment in high priority economic sector. Later the 2000's tax reform was introduced in response to economic crisis too. Thus, the rationale for previous reforms was more on response to crisis than recognition over the longer-term capacity building process that emphasizes good governance practices. Although, the rationale for current reform is not so different in term of generating tax revenue, the changes in political and social situation gives more pressure to the GOI to change tax system and administration.

Although, previous reforms had always considered the principal determinants of tax reform success to be institution and policies, those reforms did not have good governance elements. Success in policy and legal changing in the past as a part of tax institution and system were not eliminated corruption within the DGT and changed public trust on the DGT. The Soeharto regime (1966-1998) focused on economic growth and disregarded best practices in governance. Over three decades, socio economy and political development were based on a discretionary, corruption-ridden and patrimonial system. KKN (See the list of Abbreviations attached), which has come to symbolize the social costs, inequities and abuses of the Soeharto regime (Hamilton-Hart 2001: 66) also hampered within the DGT.

The current reform initiated since 2001 is the fourth major tax reform since 1980s. The reform was led by the DGT's Modernization Team, which received assistances from IMF, AusAid, Japan International Cooperation Agency, and other donors. Learning from past reforms that disregarded good governance practices, the current reform incorporated good governance elements into the reform initiatives to create a more effective and efficient administration by making more transparent procedures, more accountable system and improving officer integrity in order to have more public trust in the DGT, more productive officer and better tax compliance.<sup>3</sup>

The reform as a capacity building initiative put human resources as the focal consideration without ignoring organizational strengthening and institutionalization. Initiatives to develop human resource seek to increase the capacity of individuals to carry out their duties and ultimately will result in high tax compliance as well as high tax revenue, which are the main goal of developing countries' tax administration. This capacity building initiative for economic development is vital; as the role of tax revenue has become more important that made the DGT as one of the most influential public agencies in Indonesia currently.

## II. Conceptual Framework

### 2.1. Tax Administration Reform: a Capacity Building Initiative

To achieve good government by initiating capacity building, human resource development, organizational strengthening and institutional reform are necessary (Grindle 1997: 3–9). Some scholars emphasize the importance of focusing capacity building primarily on human resource development while other scholars focus on other factors. In this paper, the term ‘capacity building’ is used broadly to mean a variety strategies consisting of initiatives for increasing the efficiency, effectiveness and responsiveness of government performance (Grindle 1997: 5–8). The strategies correspond to three dimensions of capacity building initiatives proposed by Grindle above.

To determine the success of capacity building, effectiveness and efficiency measures should be taken. If both are linked to accountability, the approach is called ‘new public management’, which is influenced by management philosophies from the private sector. For bureaucracies, the concept puts emphasis on the control of workers, creating systems and structures that can enhance productivity and innovation. Accountability that requires transparency forces the bureaucracy to have good governance.

Tax administration reforms must be devoted to enhancing fairness and integrity as well as the effectiveness and efficiency of tax administration. A tax administration is considered effective if there is a high tax compliance ratio and efficient when the administrative cost ratio is low. The objective of tax administration reform can be seen as a systematic effort to improve tax compliance and to increase administrative efficiency with strategies concentrating all administrative resources to overcome any obstacles in the tax system, either in tax policy or tax administration. By simplifying tax administration and by introducing good governance practices, tax administration can play an important role in curbing corruption.<sup>4</sup>

Good governance is characterized by participation, transparency, accountability, the rule of law, effectiveness and equity (UNDP 2000). Without good governance, there will be no driver for economic growth and will not be possible for having sustainable development. In enhancing good governance, one of the most important things a government must create is an efficient and equitable taxation system, one that enables her to properly fund public services and income transfers to the poor but, at the same time, does not act as a barrier to private sector.

Good governance practices have a fundamental effect on the performance of government agencies. Bad governance encourages inconsistent and disruptive behavior among civil servants and thus bad

outcomes. Poor public services together with corruption cause high cost economy as happen in Indonesia and may indicate that there is a strong and direct relationship between poor public services and taxation as source of development financing. Like other large public institutions, the DGT is now faced with similar challenges of improving governance and performance.

In summary, the three important and interrelated elements framework the paper: capacity building, tax reform and good governance. Capacity building process in the DGT is critical to the achievement of sustained economic growth supported by adequate tax revenue. However human resources cannot be exploited fully and organization, such as the DGT, cannot operate effectively without good governance. Moreover, tax reform for achieving effective and efficient tax administration cannot be implemented properly without well-functioning institution.

## **2.2. Analytical Measures**

Two main tasks of tax administration reform are achieving higher effectiveness or capability to achieve high level of tax compliance, and efficiency or capability to make administrative costs per unit of tax revenue as small as possible (Ott 1998: 9–11). Ott proposed to improve effectiveness by increasing voluntary tax compliance, implementing self-assessment system, informing taxpayers, quick discovery of problems, improving control and supervision and giving appropriate penalties. While for improving efficiency, Ott proposed to establish specials units for the largest enterprises, to tax at source, to use bank services for tax collection, etc.

An important measure of tax administration effectiveness is provided by the tax gap, the difference between legal tax liability and actual tax collection. Das-Gupta and Mokherjee (1998: 77) decomposed Silvani's compliance gaps into four tax administrative gaps: (a) identification gaps which are the percentage revenue shortfalls resulting from failure to identify and register potential taxpayers, especially non filers; (b) filing gap which is a shortfall owing to stop filers; (c) reporting gap or the loss due to underreporting of income by filers; and (d) collection gap which is the fraction of identified tax demands that remain uncollected. Silvani and Baer (1997: 8–11) also classified countries based on the size of their tax gap. Specifically, they concluded that the larger the gap, the more radical the reform that need to be considered. As Indonesia is a developing country where tax administration is relatively ineffective, the gap is big and there is much room for improvement.

Gill (2000: 12–14) provides some indicators to measure efficiency that are related to tax administration cycle. For measures efficiency Gill suggests to collect information, which cover both the actual performance of the revenue agency and the corresponding performance targets. Various sources can be tapped to compile the information spread from external documents, internal documents and

interviews with either officers or other stakeholders.

### **III. Main features of Indonesian taxation**

Under self-assessment system, promoting voluntary compliance is crucial for strengthening tax administration. Combined with withholding tax system, the self-assessment system becomes a backbone of state financing, and has tax audit as the centerfold. Indonesia has two types of taxes i.e. direct taxes which consist of corporate income tax and individual income tax, and indirect taxes that consist of value added tax, sales tax on luxury goods and excises, land and building tax, tax on ownership transfer, and stamp duties.

Currently, the DGT is an organ of the MOF, which does not have a great deal of autonomy to decide budgets and recruitment of its staff. The DGT prepares tax regulation drafts, and supervises the implementation. Tax powers are vested in the Director General (DG) and delegated to regional and field offices. The Head Office (HO) is primarily a policy and planning center and also deals with the centralized computerization of data storage. The Regional Tax Offices (RTOs) are largely a management level with little direct contact with taxpayers. Most taxpayers' affairs are handled by District Tax Offices (DTOs) and Tax Audit Offices (TAO). Land and building tax is administered by Property Tax Offices (PTO). As of 1 January 2005, the DGT had 29,766 staff at the HO, 31 RTOs, 185 DTOs, 164 PTOs, and 51 TAOs spread out across the country.<sup>5</sup>

The Indonesian current tax system raises many issues, including issues of administration, policy and equality. The tax law, which contains differentiated regulations, is criticized for its bewildering complexity, ambiguity and gray areas. Moreover, there is criticism that evasion rates are too high and that the DGT is reckless and abusive in its law enforcement. To the DGT, popularity has been short-lived since the negative history of taxation during the colonialism era has confined mindset of people that tax is bad and tax officers are corrupt. The recent survey conducted by Transparency International chapter Indonesia listed the tax authorities as the second most corrupt institution in Indonesia in 2004.<sup>6</sup> Considering this situation, I quite agree with Tumakaka's opinion that reforming tax administration for enhancing good governance is the solution to improving the public perspective of the DGT.<sup>7</sup>

Since the first tax reform of the 1980s, tax revenue gradually has taken over the role of oil and gas revenue, which covered 70 to 80% of total revenue during the 1970s. The role is becoming more important due to the Asian Economic Crisis, which plunged Indonesian economy into recession in 1997. The DGT has been forced to boost revenue, as this has become the main source of development

financing in the course of a declining dependency on foreign loans. By launching tax modernization programmes, the DGT is making efforts toward sustainable growth for tax revenue, without ignoring the short-term objectives as can be seen in establishing Revenue Generation Task Force (RGTF).

## **IV. The Administration Reform**

Since 2001 the GOI has been implementing four initiatives for tax reform to strengthen tax collection and to improve the governance of tax administration, i.e. (a) large taxpayers initiative; (b) information technology initiative; (c) audit initiative; and (d) tax arrears collection initiative. In subsequent years, the package of reform became more comprehensive by adding (e) simplification of tax law initiatives and (f) good governance initiatives. So as not to forget the short-term objective in generating tax revenue, the DGT incorporated (g) revenue generation initiative, into the reform.

### **4.1. Large taxpayers initiative**

In 2001, the DGT introduced a better service to taxpayers using a taxpayer-monitoring concept known as “Knowing Your Taxpayers”. The program has been implemented partially by assigning several DGT staff at every DTO to deliver better service and to monitor certain large taxpayers. The program eventually led to the decision to establish Large Taxpayer Office (LTO) to administer a small number of very large taxpayers at national level.

The LTO is designed to achieve improvements in tax collection, tax services, and officers’ integrity and provides a foundation for the modernization of DGT.<sup>8</sup> As prototype of modern tax offices, it is expected that these offices will be pilot project for future tax offices<sup>9</sup> because of their special features i.e. organized by function, case management and workflow system, modern information technology (IT), on-line tax payment system and electronic filing system.

The organizational structure of LTO comprises a regional office (LRTO)<sup>10</sup> and two field offices (LTO1 and LTO2). As of December 31 2003, there were 252 staff at LTOs.<sup>11</sup> Before being assigned to the offices, those who have successfully passed the test must go through special training to prepare them for their new tasks. 80% of LTO staffs have at least a bachelor degree.

Large taxpayers are selected based on their tax potential i.e. the turnover and tax payments, or tax arrears. Initially, 199 taxpayers were administered by the LTO in 2002 and this number increased to 257 taxpayers in 2003. This is still below what IMF had required that as many as 500 taxpayers by the end of 2002, increasing to a maximum of 1,500 by the end 2003.<sup>12</sup> These 199 taxpayers collectively contributed for about 20% of total tax revenue. Eventually, the LTOs will administer the taxpayers

who collectively account for 35–50% of total tax revenue.<sup>13</sup> The LTOs also administer large tax debtors since these debts are likely to be very difficult to collect.

#### **4.2. Information Technology Initiative**

To fulfill its ambition to become a modern ‘world-class’ tax administration, utilization of IT to support DGT operations is indispensable. Currently, the DGT is in the process of developing an integrated tax system using existing computerized application system, and starting from introducing the Integrated Tax Administration System (SAPT) at LTO. This IT initiative combined with such communications technologies, as the Internet, enabled citizens to self-register, download forms and regulations etc. This initiative, which is also popularly called “e-government reform”, may lead to greater transparency, accountability, and reduce administrative corruption. With this initiative, tax offices are brought closer to public, not in terms of face-to-face contact but so that the public can see clearly the daily operations of the DGT.

#### **4.3. Audit Initiative**

For the Audit Initiative, the DGT has created an action plan for significant changes in the National Audit Plan since 2002, which included large increases in audit coverage, a focus on the audits of large and medium sized businesses as well as less productive audit practices such as refund audits and reductions of large scale crosschecking of VAT invoices, and better systems for monitoring the progress and results of audit plan. The DGT is modernizing its audit procedures for better detection of noncompliance and to increase tax collections. To improve the audit performance, the DGT focuses on maximizing detection of non-compliance by targeting high-risk areas, developing the skills of auditors, and increasing the use of IT.

#### **4.4. Arrears Collection Initiative**

The DGT conducts arrears collection in two ways. First, soft collection with a persuasive approach is used for the tax debtor. Soft collection results in the classification of the tax debtor into cooperative delinquents and noncooperative delinquents. Second, for noncooperative ones, hard collection is applied i.e. detention of noncooperative delinquents. For doing hard collection, Minister of Finance had signed an agreement with Minister of Human Rights and Justice for conducting detention.

To carry out Arrears Collection Initiatives, the DGT has prepared national arrears collection strategy and has created an arrears project team. The DGT has improved the management information system to provide sufficient information on monitoring the stock of arrears and to provide some limited early warnings to alert DTO to the delays experienced in handling arrears cases.<sup>14</sup> In the annual plan, the DGT sets targets and performance standards to be achieved by DTOs.

#### **4.5. Simplification of Tax Law Initiatives**

In 2004, the GOI proposed the improvement of a legal framework for tax administration by amending the Law on General Rules and Procedures for Taxation (KUP). The KUP amendment will eliminate some of provisions containing serious shortcomings that hinder fair and effective administration, such as poorly structured penalty provisions. Complicated procedures for filing tax returns, tax payments, and processing refunds will also be eliminated. In tax appeals and objections area, the DGT will make provisions for appeals to become more explicit to avoid biases against taxpayers and taxpayer's rights. Amendments to the KUP are intended to modernize enforcement regulations and procedures. By amending the KUP, the DGT is strengthening programs for identifying potential registrants, enforcing taxpayers' filing and payment obligations, and detecting the underreporting of taxes.

#### **4.6. Good Governance Initiative**

As a part of its tax administration reform strategy, the GOI prepared a governance framework aimed at promoting transparency in tax administration and integrity among officers. The governance framework implemented by the DGT includes code of conduct (COC) for LTO's officers, a telephone hotline for large taxpayers to report the misconduct of officers, establishment of COC Committee, Investigation Unit (IU) of the Inspectorate General (IG), and a special desk for the DGT and the DGCE in the National Ombudsman Commission (NOC). Moreover, all officers assigned to LTO are selected on the basis of merit-based recruitment, and perform their jobs following workflow process and case management system. The DGT also established a complaint center inside the LTO and designed a taxpayer bill of rights.

The COC is the main pillar of the DGT's new governance framework and shows the DGT's commitment to protecting taxpayers' rights and transparency of the DGT operations. The COC consists of a bunch of conducts that requires officers to maintain their integrity, by obeying rules and regulations, acting professionally and avoiding misconducts. The COC also consists of requirements for officers to maintain good working environment and keep secrecy of taxpayers.

The COC Committee is chaired by the MOF's Secretary General while the members of the committee are IG of MOF, DG of Taxes, two Inspectors of IG, Head of Law and Public Relation Division and Head of Personnel Bureau.<sup>15</sup> The COC Committee is established to monitor the implementation of COC. A secretariat has been established to support the committee.

In October 2004, the IG of MOF created IU, which focuses on examining compliance with administrative procedures and or operational audit. The findings of IU are used as input for the COC Committee in determining appropriate sanctions to propose to the Minister of Finance.<sup>16</sup> The IU



publicizes phone number and e-mail hotlines that taxpayers can contact to report misconduct by not only the DGT officers but also the MOF officers. The MOF proposes a change in legislation for gaining rights for the IU members to conduct criminal investigations, and have authority to conduct a preliminary examination of evidence and full access to all parties and information including taxpayer records, which are related to investigation.<sup>17</sup>

Based on Presidential Decree No. 44/2000, the NOC was established as an independent institution with broad powers to investigate maladministration committed by government officials and judges. Within the NOC, the special division for tax and customs has jurisdiction to investigate any administrative and procedural malpractice committed by the DGT and the DGCE or by the Tax Court officers.

#### **4.7. Revenue Generation Initiative**

For this initiative, the DGT established RGTF, which is aimed at increasing tax collection in the short-term through strategic programmes i.e. extensification, audit, collection and reporting system. Unlike other initiatives, the revenue generation initiative is an annual program. This short-term revenue generation program has different priorities for each fiscal year.

## **V. Lesson of Indonesian Tax Administration Reform**

It is obviously too early to pronounce a final verdict, since only four years have past after the DGT launched the reform with a new paradigm involving good governance elements. Reforms need time and results always depend on the criteria underlying the evaluation. However some lessons can be withdrawn from the Indonesian experience with current tax administration reform.

### **5.1. Overview of Capacity Building Initiative**

As mentioned by Grindle, to achieve good government by initiating capacity building; human resource development, organizational strengthening and institutional reform are necessary. Through the lens of capacity building, the touchstones to assess the various initiatives in tax modernization programmes have to essentially come from expectations of good governance. In that sense, the success of good governance is about not only human resource development but also how good governance has been attained through other two dimensions. To operate the touchstones, it will encompass the dent that capacity building process not only for the aims of efficiency and effectiveness, but also for elements of good governance.

### 5.1.1. Human Resources Development

Reform in human resource is critical to achieving sustainable performance improvements. To strengthen the capacity of officers inherently require fundamental changes in their behavior. This includes officer's sense of the vision, mission and goal of the DGT, desire to work effectively and efficiently; willingness to pursue tax evaders and ignoring any pressures, commitment to integrity and best taxpayer service.

The DGT initiatives to develop human resources seek to increase the capacity of officers to carry out tax services professionally through training and education development that are conducted either by the MOF's Training and Education Agency (BPPK) or by the DGT herself. Basically, two kinds of training provided by the BPPK: technical and management training, while regarding overseas training in Japan, U.S., France, and U.K., the DGT benefited 281 officers who earn master degree and 4 officers who earn doctoral degree holder out of 516 overseas graduates sent by the BPPK since 1992.<sup>18</sup>

Insufficient appropriation of funds had been always classic problem. Mansury linked the problem into necessary training officers should have (1992: 197). Recently, the problem is still the same. Besides the foreign loan for human resource development, the DGT also relies on grant her officers may receive from foreign government or institutions to be trained abroad. While for domestic training, the insufficient funds problem was sometimes solved by using off-budget funds.

Advanced skill and knowledge is necessary for professionalism, but this is insufficient without ethics. Therefore, besides domestic and overseas training programmes, the DGT also promotes moral reformation that emphasizes on improvement of officers morale by giving them religious training programmes.

Some jobs are effective to be done by the DGT officers themselves but jobs such as IT system development is not. Such specific high technical skill takes time to acquire while there is immediate demand of the new system. Efficiency is another issue that made the DGT outsourced some of the IT job to outsiders.

Training and changes in remuneration scales and conditions of work have been developed in LTO. Exploring LTO experiences and based on interviews and surveys either internal or external survey, I found that there were increasing satisfaction among stakeholders of tax services performed by the LTO.<sup>19</sup> However in national level, the principal weaknesses of implementing initiatives related to human resources development still relate to the issues of incentives and management relationship created by the structure of the Indonesian civil service. The LTO case is unexceptional since the

budget for additional income comes from special budget of Minister of Finance.

### **5.1.2. Organizational Strengthening**

Organizational restructuring to improve efficiency and effectiveness is one way to get rid of corrupt officials. The DGT is moving over to a functional organization structure gradually, leaving the opposite, an organization structure based on tax types. This started with establishment of LTO. The reorganization has been accompanied by implementation of new information system, the COC and establishment of the COC Committee.

In addition to new remuneration and work restructuring, organizational strengthening dimension was reflected mainly in implementing IT initiatives as effective means for increasing productivity within the DGT. This initiative supports other initiatives including implementation of good governance elements such as accountability and transparency, horizontal transparency in particular, as can be seen in implementing case flow management at the LTOs.<sup>20</sup>

Since LTO's taxpayers have more sophisticated business character, extensive or complicated transactions, the concentration of them in LTOs enables the DGT to deploy its best officers to develop their skill. Based on observation, LTOs are also an important mechanism for maintaining revenue collections at a reasonable level as targeted by the RGTF, while the rest of tax offices are being modernized.

However, career planning of LTO officer still blur. In other words, there is no clear career path for LTOs' officers. It seems that the DGT has an evolutionary strategy, beginning with LTO and then expanding to future pilot project offices, which will become the next destination for some officers. Transferring LTO officers to ordinary offices will make best practices useless.<sup>21</sup>

The main constrain related to this dimension of capacity building is the underlying corruption culture. The idea of improvement in remuneration cannot be implemented immediately since the DGT is constrained by laws that apply to the public sector as a whole. The DGT does not have flexibility of budget and recruitment. Based on this situation, there was a discourse for adopting an independent agency model de-linked the salaries of DGT staff from the general civil service, thus, giving the DGT freedom to pay market salaries.

### **5.1.3. Institutional Reform**

While by doing institutional reform, the DGT tries to adapt to changes in external environment. In doing capacity building through institutional reform, the DGT tries to innovate the policies and

regulations, mechanism of accountability and regulatory framework reflects on reorganization of the DGT and monitoring daily operations system. Those innovations were reflected on all initiatives.

The GOI intends to strengthen the legal framework for tax system by revising the rules and procedures governing the DGT. The amendments have been directed at removing loopholes in legislation that create tax avoidance opportunities; strengthening taxpayer registration requirements; strengthening enforcement powers of the DGT; enabling information exchange with other government agencies to facilitate bank data; increasing penalties for non-compliance; raising the threshold and so on.

The GOI have engaged in an extensive consultation process with many stakeholders for preparing amendment of those tax laws. Besides IMF mission's member and other foreign donors' officers, the domestic people also involved i.e. tax consultant, legal expert, and business community. More or less, the results of consultation were included on the MOF's policy paper as a basic legal framework for amendments. Later, the DGT with the business community prepared and compared the proposals with good international practice from countries that have effective laws on tax administration. It took times to prepare the draft but the recently completed draft revisions of the legislation have been hailed as business-friendly as they offer relatively low tax rates while encouraging better compliance among taxpayers.<sup>22</sup>

The DGT hopes that the drafts that offer incentives will not only stimulate the economy but also help expanding the tax base as a result of the introduction of a simpler taxation regime. Another important incentive that favors business community would be tax amnesty, which is aimed to improve tax compliance. However, this controversial tax amnesty was not important issue during Megawati administration period.

A provision that related to good governance practices is a new provision in the KUP law draft that will vest the IG with the authority to investigate misconduct by tax officers.<sup>23</sup> In addition, the Taxpayer Bill of Rights has been published as well as other avenue for reporting misconduct of tax officers. However the good governance issues that left behind are fairness and equity issue since the DGT rejected business community proposals on equal treatment between taxpayers and tax officer who involved in misconduct, abolishment of some proportion of assessment payment before filing objection, and so forth. Amendments that aimed at strengthening enforcement capacity of the DGT face concerted opposition from the business community, lawyers and accountants associations and civil society member particularly on the DGT's right to detent bad tax debtors without judicial process.

An important note that should be taken is in improvement of administrative appeals mechanisms by amending Tax Court Law in 2003. The GOI converted the Tax Dispute Settlement Body into the Indonesian Tax Court by enacting Law Number 14 on Tax Court in 2002. The intention is to make a more transparent and neutral administrative appeals. The Tax Court is authorized to handle disputes that pertain to taxation matters, and to examine and decide upon appeals that are brought against the DGT's decisions. The decision of the Tax Court is final and immediately executable in the sense that it does not require the decision of other relevant authorities for its execution. However, as the last resort, a request for a review of the Tax Court decision may be submitted to the Supreme Court.<sup>24</sup>

The enactment of this Law drew controversial media, lawyer and judges reactions in 2002. One argument states that it is not consistent with the state constitution since the constitution does not specify the Tax Court as one of the courts in the Indonesian judicial system. Another argument along the same line points out that according to the Law Number 14/1970 on Basic Provisions on Judicial Authority; judicial authority is to be exercised by the General Affairs Court, the Religious Court, the Military Court and the Administrative Court.

Concerning good governance issue, it seems that fairness is far from the reality since at present the Tax Court is still considered by many taxpayers to be an unfair institution because it often takes side with the tax office.<sup>25</sup> There is a curiosity since the Tax Court is still under of the MOF. Moreover, all of its judges are selected and their salary is paid by the MOF. The court itself is not open to public. A good appeals process is essential for improving voluntary compliance, as it increases the taxpayers' trust in the fairness of the DGT but an MOF subordinated tax court will make transparency and fairness becomes beautiful words.

## **5.2. Effectiveness and Efficiency of Tax Administration**

### **5.2.1. Tax Revenue**

Besides internal factors, tax revenue also depends on external factors over which the DGT has no control. The tax base of Income tax, VAT and import duties depends on the impact of general economic trends. Therefore, it is amazing that during the economic recovery after 1997, no matter how high the tax revenue target was, the DGT could fulfill it. This suggests that the operation of DGT has become more effective and efficient. Indirectly, this also reflects serious efforts to eradicate fiscal corruption.

The reform was a success in terms of tax revenue targets. As we can see from Table 1, tax revenue increased to almost 75% of the state revenue in 2003 and the tax ratio rose from 12.6% in 2001 to 13.6% in 2003. From the DGT's perspective, these results were achieved not only as a result of RGTF

initiatives but also due to the other longer capacity building initiatives. These results were also influenced by improvement in macroeconomic situation for prudent management of monetary and fiscal policy under Megawati Administration (2001–2004).

Still the 2003 tax revenue remains low, equaling 67.2% of tax potential although shown significant increasing in coverage ratio as much of 16.6% from 1999/2000's coverage ratio. In countries with more fully developed tax system the tax potential could be 80–85% (Gitte 1993: 6). While a 13.6% tax ratio was still relatively low in comparison to other Asian countries. It was also lower in comparison to the 14% in average tax ratio of Latin American Countries. In developed countries, the tax ratio could be 40% or more. Among ASEAN countries, Singapore had the highest ratio, as much of 22.4%. As for the original five ASEAN countries, the average ratio was 16.98%, while the Indonesian tax ratio was just 11.31% from 1985 to 1995 (Rizal 2001: 4).

**Table 1**  
**Tax Revenues, 1999/2000–2005**  
**(in billions of rupiah)**

Fiscal Year	Domestic Tax					International Trade Tax		Total	G D P	Ratio (%)
	Income Tax	V A T	Land & Building Tax	Excises	Other Tax	Import Duties	Export Tax			
1999/2000	72,729.0	33,087.0	4,107.3	10,381.2	610.9	4,177.0	858.6	125,951.0	1,138,115.8	11.1%
2000	57,073.0	35,231.8	4,456.1	11,286.6	836.7	6,697.1	331.2	115,912.5	971,502.6	11.9%
2001	94,576.0	55,957.0	6,662.9	17,394.1	1,383.9	9,025.8	541.2	185,540.9	1,467,654.8	12.6%
2002	101,873.5	65,153.0	7,827.7	23,188.6	1,469.3	10,344.4	231.0	210,087.5	1,610,565.0	13.0%
2003 (Revised)	114,832.4	76,760.7	10,906.1	26,396.4	1,654.3	10,847.3	229.6	241,626.8	1,786,690.9	13.5%
2004 (Budget)	133,967.6	86,272.7	10,698.6	27,671.0	1,614.0	11,636.0	315.2	272,175.1	1,999,663.9	13.6%
2005 (Proposed)	141,858.5	98,828.4	13,486.9	28,933.6	2,039.9	12,017.9	344.8	297,510.0	2,190,796.7	13.6%

Source: Financial Notes and Budget

Notes:

- 1) Since FY 1999/2000 including Income Tax on Oil and Gas
- 2) Since FY 1998/1999 including Duty on Land and Building Transfer
- 3) Since FY 1989/1990–1998/1999 GDP Non Oil, FY 1999/2000–2004 Total GDP
- 4) Projection
- 5) Adjusted to new classification
- 6) Period from April 1st to December 31st, 2000 (9 months)

If we examine even older data, from 1969 to 1993, the total tax revenue was Rp 149.46 trillion, while from 1994 to 2000 the figure was Rp 520.65 trillion.<sup>26</sup> With the current reform, tax revenue from 2000 to 2004 will be approximately Rp 916.47 trillion.<sup>27</sup> In other words, the total tax revenue for 32 years (1969–2000) is less than 4 years' tax revenue (2001–2004).

There is a difference of performance of two main tax revenue sources: income tax and VAT. While the ratio of Income Tax to GDP is up and down around 6.4%, the VAT ratio to GDP has increased significantly from 2.9% to 4.5%.<sup>28</sup> The relative constant ratio of Income Tax to GDP is understandable since the base of this tax, business profit, is volatile and typically shows wide swings in parallel with economic cycle. Also as consequences of the economic crisis since 1997, incentives for tax noncompliance has grown, not to mention among other things, increasing individual income tax threshold and backlogs in income tax assessment and collection. The income tax noncompliance can happen easier than VAT's since VAT, to such extent, is more difficult to evade due to implementation of computerized crosschecking of VAT invoices regardless counterfeiting. Different practices in negotiating tax refund involving extortion and embezzlement may contribute to different performance of these two taxes.

On the other hand, since the crisis Indonesia's economic growth has by and large relied on consumption, government consumption in particular (World Bank 2003: 2). In addition to successful simplification administration of VAT, the significant increase ratio of VAT happened due to removal of some tax facilities such as tax exemption and the government-borne VAT for specific goods and services, which were previously granted by 1994's reform. Difference from Income Tax, Indonesian VAT, at a single rate of 10%, is a neutral tax that is collected at each stage of production and distribution.

For these tax revenues, the collection cost is perceived to be low, as 0.38% was needed for each rupiah collected in 2001 and 0.48% in 2003. However, these figures may be biased, since some operations were financed by either individual money or off-budget funds. Still, this collection cost is low in comparison with the 2% figure of developed countries.

### **5.2.2. Tax Compliance**

The current reform has led on improvement in number of registered taxpayers but not in registration gap. The number of registered taxpayers increased significantly from 2.39 million in 2001 to 3.33 million in 2003.<sup>29</sup> Of that number, 955,000 were corporate and 2.4 million were individual taxpayers. The figure for registered individual taxpayers was still very low in comparison to 56.6 million households or 90.8 million workers. The registration gap was 95.76% when viewing the number of households and much larger if we include the number of workers. This figure is larger than 86.17% of 1998's registration gap (Rizal 2001: 39). While for the corporate taxpayer, the figure was 92.48% for 12.7 million corporate taxpayers. As for detecting unregistered taxpayers, the problem lies primarily in finding the relatively small taxpayers. In countries such as Indonesia, where the informal economy is very large (63.4% according to Statistics Indonesia, 1999), unregistered taxpayers are big.

For the filing gap, the situation has not improved significantly. The filing gap ranged from 65% to 58% between 2000 and 2002 (Nasucha 2004: 11). If we compare to previous reform result, the gap from 1994 to 1998 ranged from 54.15% to 64.35% (Rizal 2001: 41). This low rate indicates ineffective extensification program that caused overregistration. At the end, this low rate affects the audit coverage.

Among the 35–42% effective taxpayers, not all of them report their taxes correctly. This leads to create reporting gap that ranged from 33.2% to 24.6% between 2000 and 2002 (Nasucha 2004: 5). There were not so many improvements if we compare to 30.83% of the 1998's reporting gap. These figures correlated to the low ratio of audit coverage, which was 72.4% in 2001, 61.5% in 2000 and 57.5% in 2002, which was further constrained by low quality of audit techniques, few auditors and corruption.<sup>30</sup>

The tax audit performed by the DGT was not effective since it focused too much on refund audits stipulated by the legal requirement that all refund claims had to be audited regardless of the reliability of the refund claimants. Nonproductive audits are performed every year, which also worsened compliance level. Moreover, refund claim audits are well known as a source of collusion since negligent taxpayer's interests coincide with corrupt auditors'. Audit improvements in programmes, techniques and morale must occur for improving compliance.

Tax arrears increased from Rp 13.3 trillion in 2001 into Rp 25.5 trillion and US\$ 113 million in 2003.<sup>31</sup> Therefore, the collection gap for 2001 was 6.72%, which was lower than the 9.57% figure for 2003. This trend was due to the penalty rate, collection efforts, and certainly, the poor audit quality contributed in increasing tax delinquency. However these figures are much lower in comparison with 19.0% of the 1998's collection gap (Rizal 2001: 43). Since taxpayers' non-compliance of tax payments made the reduction of arrears difficult, so that the DGT was forced to apply strict active collection efforts.

Arrears collection initiatives aim to reduce existing tax arrears' stock. For this purpose, the DGT formulates an arrears collection plan, which includes detention to bad tax debtor after certain procedures. In 2003, the DGT detained two bad debtors including one British national who failed to pay Rp 45.8 billion of his individual income taxes for 1998 and 1999.<sup>32</sup> This detention is quite controversial, inviting many critics from the public including IMF, to remove the DGT's authority to detain tax debtors.

Similar to the audit program, the modernization program seeks to strengthen the DGT's arrears



collection powers to protect government revenue and to enhance the credibility and fairness of tax administration. This will require the formulation of a coherent arrears collection strategy, the development of new collection enforcement methods, and a new training program.

In general, if we compare the effects of current reform to tax compliance with the previous reform, we see there have been not so many improvements except in collection gap. In contrast tax revenue has increased remarkably, but it seems in the middle of the current economic slumps, simply changes in tax structure such as raising all tax rates or broadening tax base as previous reforms did, will not be effective ways due to the high rate of tax gaps. Further increase in tax revenue therefore may come from sustainable capacity building initiatives that can overcome shortcoming such as inadequate legislation, poor organization, inefficient human resources and corruption.

### **5.3. Good Governance Practices**

Taxation is the most prominent example of government activity where good governance is crucial for the functioning of a market economy. For the tax administration such as the DGT, there is a need for competence and integrity in its personnel to govern well. However integrity alone is not enough, there needs to be a system of accountability, checks and balances, the rule of law, the role of the management, transparent, as well as a supply of timely and appropriate information to stakeholders including taxpayers that drive good governance in achieving the DGT best performance.

Putting good governance elements into the tax reform is a response of the DGT in supporting democratization process in Indonesia. As capacity building initiative, the tax administration reform is a process that requires time as well as the explicit commitment of the government, a political backup. In post Soeharto era, enhancing democracy became the major agenda for the successor regime. This agenda promotes people spirit to implement good governance practices in public sector including the DGT. This process of capacity building will be beneficial for the DGT in performing their duty through a competent, competitive, and professional picture of officer's.<sup>33</sup> Eventually, highly competence officers will result in the improvement of tax services and revenue.

As already mentioned, differences between the current reform with previous reforms are found in the implementation of good governance. The goal of implementing elements of good governance is to raise taxpayer's trust in the DGT. Characteristic of good governance implementation initiatives can be summarized as follows: a) implementation of COC, b) establishment Committee of COC, c) special desk for the DGT and the DGCE at the NOC, and d) establishment of IU at IG of MOF. In addition to these, good governance initiatives are supported by improvement of IT. For promoting transparency in tax administration and integrity among tax officers, the DGT is also conducting internal consolidation

that consists of capacity building in the mentality and attitudes of officers through morale reformation, in house training, and implementation of fair reward and punishment.<sup>34</sup>

Inefficient, incompetent and corrupt tax apparatus is a strong disincentive for potential taxpayers. Adopting good governance elements may minimize collusion and corruption. However, the main risk in implementing this initiative is whether the DGT officers will take the governance framework seriously and adjust their behavior, or simply ignore it and continue their bad practices. The challenge is to construct a transparent and accountable system, which has two primary objectives: the first is to prevent fraud from taking place, and the second to inspire taxpayers' trust in a fair and decent system in which there is a realistic chance of fraud being detected.

The good governance initiatives represent important first steps in improving governance within the DGT. Based on an interview with the Head of LTO, there have not been any reports of misconduct by officials at the LTO since its establishment.<sup>35</sup> The media and representatives of the business community have all given the LTO very high marks for integrity. This impression derives from the excellent services they provide. It was surprising to see LTO officials refuse to accept even small gifts, such as boxes of chocolate or doughnuts. However as informed by a confidential IG inspector, several important areas of COC implementation requires improvement, particularly with respect to audit activities.

Institutionalising the COC is something that will not happen instantly. It is something that has to be continually emphasized. To improve officers' understanding of the institutional framework of tax administration reform, internal socialization could be enhanced in line with top down approach, such as management by example. As paternalistic culture is quite strong in Indonesia, it needs to begin with strong ethical leadership at the top. A proper example shown by high-ranking officers is crucial to the achievement and maintenance of an effective integrity system within the DGT.

To improve its image, the DGT has engaged in various activities such as high school visits, talk shows, TV shows, public discussions, choir competitions and even there is intention of buying a radio station to become closer to the public. As an alternative effort for the increasing public awareness on the DGT, the DGT conducted public competition to choose two representatives for DGT's public relation activities. Ironically, some programs, including the anniversary of Moral Reformation and launching ceremony of e-registration, were big and expensive events, which invited criticism from elite and public.<sup>36</sup> An ironic statement came from an LTO officer was that the LTO campaigns only for large companies and not for the public. However, according to by Widoyoko, an Indonesian Corruption Watch executive, the DGT has no effective public awareness campaign for its good governance

initiatives.<sup>37</sup>

Concerning IG as the overseers, as experienced by some confidential sources, the IG officers might use audit findings for bargaining on covering the audit findings on the officers' works. Therefore, for the new IU, the critical question is 'who guards the guardians?' Is the sweeper clean enough to sweep the floor? Finding this answer is especially difficult in the context of hiring and keeping professional investigators and auditors at salaries, which are often only a fraction of the compensation at comparable private companies.

Monitoring corruption cannot be left only to the Committee of COC, IG or other overseers. Action cannot depend solely on the probability of detection and punishment or a 'carrot and stick' approach, but rather, include a combination of interlocking systems in which there is a check and balances. Therefore, in addition to the carrot and stick, corruption can be controlled through a combination of ethical codes, decisive legal prosecutions against offenders, organizational change, and institutional reform.

Even though the good governance initiatives have been implemented in LTO, collusion between taxpayers and tax officials continues as usual outside the pilot project offices. The DGT reports that 365 officers has been administratively sentenced and 60 officers had been fired in 2002 and 2003,<sup>38</sup> but propensity for misconduct still there, exists due both to low salary and simple greed.

#### **5.4. The Resistances to Reform**

Although it may not reflect the policy commitment of the government, in view of the governance aspect of DGT policies may help to improve public trust in the government. However, further efforts are needed to ensure that the governance framework has a real impact on the behavior of officers not only in pilot project offices but also in every office.

The main problem of implementing the reform lies in the resistance of officers, which can be withdrawn from the general environment for public services in Indonesian society. The tax administration of any country inevitably reflects to large extent the nature of the country itself.<sup>39</sup> There are some concerns among some officers about the DGT plan to adopt the LTO system to other offices. They feel this system is a threat. Some interviewed mid-managers stated that they do not want a cut in their income and prefer status quo. Even sources from the LTO felt unhappy and considered their income as 'fixed', while people who work for non-pilot offices receive 'fluctuating income'; which depends on negotiations with taxpayers.

It is common to have resistance to change from some people when a new system incorporating capacity building initiatives is implemented. However, of greater concern is the probability of reform fatigue. The reform will lose its impetus if the continuous capacity building initiatives always emphasize morale reform without big changes in bad governance practices. The resistance might also come from negligent taxpayers who consider the benefit they can receive from the status quo where they can negotiate for lower taxes.

It takes time to remove these obstacles. For example, two relationships are critical in implementing information systems. The first relationship involves the DGT officers. Specifically, it is difficult for senior officers to grasp the role of computers in meeting their needs because they have little understanding of computers. About 30% of senior officers have computer illiteracy, and therefore it is rare to find senior staff who clearly understands the role and limitations of IT in solving the DGT's needs.<sup>40</sup> The second relationship is between the DGT and the taxpayer since computer understanding varies from being too overzealous, such as in viewing computers as a panacea, to indifference and even fear amongst users.

It takes a great deal of time for implementing good governance initiatives. The institutionalization of such governance must take root and be sustained over time before its impact can be assessed. It is not realistic to accomplish the DGT's ambitious goals to curb widespread corruption in a short time. The DGT is attempting to address this issue in the context of a weak political regime, a difficult economy, rising sectarian and communal violence, erosion of central authority and greater demands from regions for political autonomy or even secession. Also if the reforms, particularly good governance initiatives or morale reformation are going to be more than cosmetic, the involvement of civil society will need to develop monitoring that are congruent with definitions and concepts identified as 'participatory development'.<sup>41</sup> An emphasis on governance in effect demands a complete overhaul of the whole approach to public policy formulation, social organization, and requires radically new approaches to development policy.

## **VI. Concluding Comments**

Although we have more to learn about current reform of Indonesian tax administration, some conclusion can be made.

Learning from past reforms, there is a realization of the significance of the ongoing paradigm shift of the DGT current reform: toward good governance practices. Capacity building for enhancing good governance that aims to make tax administration operate effectively and efficient called for a review of

the DGT performance and good governance practices. Increasing demands are placed on the quality of DGT and the ability of officer to grasp the essence of the tax administration problems i.e. inefficiency and ineffectiveness. For meeting these demands, seven initiatives have been implemented to guide the DGT in carrying out the reform, which covers taxpayer services, cost-effective administration through automated system, law enforcements, good governance including anticorruption efforts, as well as the traditional concerns of tax administrators i.e. tax revenue targets.

Given Grindle's three dimensions of capacity building initiatives, the question remains as to what needs to be done particularly to evaluate the success of the reform, since the reform was successful in terms of revenue target achievement but not so for compliance and governance. The dimension of human resource development has been the focal point of the reform but the question remains over the sustainability of the reform and consistency of implementation of reform programmes due to gaps between the capacity building concept and the implementation process, which involves human resource factor. The gap was contributed by gradual implementation of good governance initiatives due to budget constraints. The gap was also contributed by disbelief amongst some officers that there was strong will for the promotion of good governance.

Billions in rupiah may be spent on the reform and the best systems may be introduced but ultimately it is the people in the organization that matter. Successful tax administration requires not only balancing services to the taxpayer and enforcement of the tax laws and regulations to promote voluntary compliance, but also involves the integrity of officers in implementing reform programmes, particularly those having elements of good governance. Yet, deteriorating economy put a severe strain on enhancing good governance practices, with low income of conventional tax office officer and bending control on misconduct presenting a major challenge to the DGT, as well as uprising opportunism.

From this reform, it will emerge a new bureaucracy and a new Indonesia. However, the strategic vision of the DGT cannot be independent from Indonesia's general public service capacity and actual political system. Therefore, merely reforming the DGT is insufficient. More basic reforms are needed to ensure that other related institutions in society can also realize their potentials and function accordingly. It is impossible to create a clean and sound tax authority if other institutions are intertwined in a distorted chain. Even a modest reform program looks utopian in the absence of consistently enforced laws and clean government. Therefore, the DGT reform must be accompanied by reforms of other public agencies. Changes can be made incrementally, at the most appropriate time and in appropriate stages, but what is required most is commitment and political will to initiate such changes.

### List of Abbreviations

BPPK	: Badan Pendidikan dan Pelatihan Keuangan (MOF Training and Education Agency)
COC	: Code of Conduct
CCOC	: Committee of Code of Conduct
DG	: The Director General
DGCE	: Directorate General of Custom and Excise
DGT	: Directorate General of Taxes
DTO	: District Tax Service Office
FDSA	: Financial and Development Supervisory Agency
GOI	: The Government of Indonesia
IG	: Inspectorate General of MOF
IU	: Investigation Unit
KKN	: Korupsi, Kolusi dan Nepotisme (Corruption, Collusion and Nepotism)
KUP	: Law on General Rules and Procedures for Taxation
LTO	: Large Taxpayer Office
MOF	: Ministry of Finance
NOC	: National Ombudsman Commission
PTO	: Property Tax Office
RGTF	: Revenue Generation Task Force
RLTO	: Regional Large Taxpayer Office
SAPT (ITAS)	: Integrated Tax Administration System
TAO	: Tax Audit and Investigation Office

### Endnotes

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- 1 For more comprehensive explanation on 80s reform, see Chapter 4 of Gillis (1989).
- 2 Both Wardhana and Prawiro was former Minister of Finance under Soeharto Administration.
- 3 Interview with Dr. Djazuli Sadhani, The Secretary of the DGT (05/08/2004).
- 4 The experience of South Africa shows that good governance is an essential component of successful tax reform. (DGT's Comparative Study Report, 2004 and SARS' Report, 2004).
- 5 Source: Personnel Division, DGT.
- 6 Corruption Perception Index 2004, TI chapter Indonesia.
- 7 Interview with Wahyu Tumakaka, the Head of Special Tax Office for Expatriate and Permanent Establishment I (29/07/2004).
- 8 Interview with Dr. Robert Pakpahan, vice chairman of Modernization Team (03/08/2004).
- 9 Following LTO, Medium Tax Office and Small Tax Office will be implemented gradually across the country.
- 10 The RLTO is a special office with nationwide jurisdiction. Therefore the terminology "region" is rather awkward from an academic perspective.
- 11 LRTO. Annual Report 2004.

- 12 IMF'S Progress Report on Tax Administration Reform. February 11, 2002.
- 13 The 2003 LOI stated that the LTO would be expanded to control 35% of national revenue collections in 2003.
- 14 The DGT has database of 1,000 largest tax debtors for monitoring and control purposes.
- 15 Minister of Finance Decree No. 223/KMK.03/2002.
- 16 Based on Government Regulation No. 96/2000, the authority to lay-off and rotate DGT staff is under the MOF.
- 17 Interview with Dr. Irfa Ampri, one of key persons of IG in establishing the IU (10/11/2004).
- 18 Noor Fuad in Subiyantoro and Rifat (ed) (2004: 415–432)
- 19 Prior to October 2004, the LTO conducted two taxpayer satisfaction surveys. Two surveys were conducted external: AC. Nielsen and Hay Group. Please also see “*Kesan Dan Pesan atas Reformasi DJP*” (*Impression on the DGT's Reformation*), National DGT Executive Meeting, December 6–7, 2004.
- 20 Interview with Rafianto, Deputy Director of Directorate of Tax Information (02/08/2004). Also interview with Rudaedi, the Head of LTO 1 (04/08/2004).
- 21 Tumakaka, gave a metaphor: “LTOs are Aquariums with clean water while outside of LTOs are dirty ponds”. (29/07/2004). Also interview with Dedi Rudaedi, the Head of LTO 1 (04/08/2004).
- 22 Mohamad Hidayat, Chairman of KADIN. (The Jakarta Post, August 24, 2005). Later, KADIN tries to reject the draft although KADIN involved actively in the draft preparation process.
- 23 Interview with Dr. Ampri. (10/11/2004)
- 24 According to the law No. 35/1999, all the courts were to be transferred to the jurisdiction of the Supreme Court by 2004
- 25 Jakarta Post, January 08, 2005.
- 26 Financial Notes and Budget. 1969–2003
- 27 The figure is cited from DG presentation at Bogor Institute of Agriculture on 13/09/2004.
- 28 This trend of increasing VAT revenue has been there since 1980s' tax reform (See Asher, 1988: 155). Also, in general the lack of growth in direct taxes in developing countries may reflect the relative strength of indirect taxes (African Economic Research Consortium, 1998: 30).
- 29 Source: Directorate of Tax Information, DGT.
- 30 For more comprehensive institutional analysis see Rizal (2001).
- 31 Directorate of Tax Audit, Investigation and Collection. Annual Report 2003.
- 32 One year after the implementation of detention policy, the tax revenue increasing Rp 16 trillion per month as claimed by the DG.
- 33 Interview with Dr. Pakpahan, (03/08/2004).
- 34 Interview with Dr. Sadhani, (05/08/2004).
- 35 Interview with Rudaedi, the Head of LTO 1, (04/08/2004).
- 36 Sri Mulyani, Minister of Development Planning, criticized the DGT for making the e-registration ceremony too glamour and expensive. (Kompas Newspaper, 07/12/2004)
- 37 Interview with Danang Widoyoko, (25/09/2004).
- 38 Directorate of Tax Audit, Investigation and Collection. Annual Report 2003.
- 39 Bird on Gillis's *Tax Reform in Developing Countries* (1989: 318).
- 40 Interview with Rafianto. (02/08/2004 and 15/10/2004).
- 41 Such participatory development may be rather difficult in highly technical matters since most taxation activities involve secrecy to some extent.

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