

# *The tax compliance costs of large corporate taxpayers in Indonesia*

---

**Budi Susila\* and Jeff Pope\*\***

## **Abstract**

*This article reports the results of the first research on the compliance costs of large corporate taxpayers in Indonesia in 2010. Using a mail survey of 3,000 questionnaires with a response rate of 8.2%, the main finding is that the gross costs of compliance for large taxpayers are significant, estimated to be IDR 12.3 trillion, and account for 3.16% of tax revenue for large corporations and 0.19% of the Gross Domestic Product in 2010. Overall average costs per large company are IDR420,933, 442 (around A\$55,000 at the December 2010 exchange rate). Average costs differ markedly across the various economic sectors. The majority of the costs are incurred on human resources in the companies (staff, managers, directors). The research shows that costs are regressive in terms of the number of employees, the amount of total assets, the annual turnover, and the tax payments. The components of compliance costs are broken down into: routine and non-routine costs 86% and 14%, internal and external costs 73% and 27%, computational costs and planning costs 73% and 27%, respectively. Cash flow benefits and tax deductibility benefits, both being offsets of gross costs, represent 24% and 25% of gross compliance costs respectively. The article concludes by succinctly setting this timely research in an international context, identifying its limitations and discussing the study's significance for Indonesian tax policy, with a recommendation for further work in the tax compliance costs field.*

*Keywords: tax, compliance costs, Indonesia, large corporate taxpayers, 2010*

\* Budi Susila is a Doctoral Candidate at the School of Economics and Finance, Curtin University, Western Australia and an officer at the Directorate General of Taxes, Ministry of Finance, Republic of Indonesia.

\*\* Jeff Pope is a Professor and the Director of the Tax Policy Research Unit, School of Economics and Finance, Curtin University.

This paper was accepted for publication on 4 July 2012.

# 1 Introduction

Research on taxpayers' compliance costs has been undertaken in developed countries since the 1930s, yet arguably in developing countries it only started in the 1990s. This article reports the results of the first research on the tax compliance costs of Indonesian taxpayers, in this case large corporate taxpayers as they are the biggest contributors of Indonesian tax revenue. This article is organised as follows. Initially the key literature is reviewed. This covers the development of leading research in the field from the beginning to its spread to other parts of the world, including Asia, Africa, and the transition countries. Following this review, the methodology of the research is presented to illustrate what steps have been taken before, during, and after the data collection phase. The main results of the research are presented next which discuss the magnitude and the features of the costs and a succinct comparison with other countries. Finally, several limitations are acknowledged and concluding remarks are drawn, including future research directions.

## 2 Literature review

### 2.1 The Development of Studies on Tax Compliance Costs

The systematic study of compliance costs started in 1935 in the United States by Haig (cited in leading studies by Sandford, Godwin, and Hardwick 1989, p. 27; Allers 1994, p. 242; Pope 2003b, p. 204; Tran-Nam et al. 2000, p. 229), despite the fact that the importance of minimizing the costs to taxpayers in fulfilling tax obligations has long been recognized, which dated back to Adam Smith's four principles of a good tax system in 1776. Several different reasons for this negligence have been offered, including the reduced role of tax in the economy (Sandford, Godwin, and Hardwick 1989, p. 27); the complexity and costliness of compliance studies (Allers 1994, p. 7); the complexity and the lack of political will (Pope, Chen, and Fayle 1993, p. 68-69); the notion that the costs have been immaterial, the unavailability of a robust model to reduce the costs, and the difficulty of obtaining needed data (Tran-Nam et al. 2000, p. 229).

Sandford, Godwin et al. (1989, p. 27-34) analyse the development of the studies on compliance costs, including the first period that took place in the 1930s to 1960s in North America, while arguing that many of the previous studies were methodologically 'very weak' (*ibid.*, p. 27). Although these initial studies had 'very considerable deficiencies' (*ibid.*, p. 30), they contributed to theoretical and definitional questions as well as making several consistent conclusions (Sandford, Godwin, and Hardwick 1989, p. 30; Pope 2003b, p. 204).

The second period in the 1960s and early 1970s saw tax compliance costs research begin in Europe (Sandford, Godwin, and Hardwick 1989, p. 30), particularly in Germany (Strumpe 1966). In the United Kingdom, the study of compliance costs was pioneered by Sandford in 1973 with personal direct taxes and subsequently on

the other main taxes in the UK such as Value-Added Tax (VAT), Pay As You Earn Tax (PAYE), Personal Income Tax, Capital Gains Tax, and National Insurance Contributions (Sandford, Godwin, and Hardwick 1989; Godwin 1995).

The third period from the 1980 onwards witnessed the spread of compliance costs research internationally. Sandford, Godwin et al. (1989, p. 32) and Pope (2003b, p. 207) noted that at the time the interest in this research had now spread to many developed countries including Ireland, the Netherlands, Germany, UK, North America, Canada, Sweden, Germany, and Australia.

Following these three periods postulated by Sandford, Godwin et al. (1989), compliance costs research in Australia started in the late 1980s. It was pioneered by Pope with work on personal income tax (Pope, Fayle, and Duncanson 1990), public companies' income taxation (Pope, Fayle, and Chen 1991), employment-related taxation (Pope, Chen, and Fayle 1993), wholesale sales tax (Pope, Fayle, and Chen 1993), and companies' income tax (Pope, Fayle, and Chen 1994). Subsequent research in Australia has been conducted on small businesses (Wallschutzky and Gibson 1993) and there were two major research studies both on businesses and individuals sponsored by the Australian Taxation Office (Evans et al. 1998).

Several previous compilations of research on compliance costs from the 1930s until around 2008 have been completed. Sandford, Godwin et al. (1989 p. 224-230) present the first comprehensive summary of 33 research studies covering the period from 1935 to 1989, categorized by the type of taxes, namely corporate taxation (9 studies), business taxation excluding corporate taxation (14), and personal taxation (10). Pope (1993 p. 14) provides the summary of the period from 1980 to 1994, in which 30 studies are identified. Allers (1994 p. 242-250) summarizes the studies on operating costs of taxation from 1935-1993 and identifies 63 compliance costs research studies and 29 administrative costs research studies. More recently, Evans (2003) is able to identify 60 taxation studies on operating costs from 1980 to 2003, comprising 19 studies in North America, 18 in Europe, 19 in Australasia and four in other countries, with an updated commentary five years later (Evans 2008).

The period after 2000 witnessed the spread of compliance costs research in transition and developing countries and the involvement of the World Bank Group in this area as well as the exploration of other aspects of compliance costs in developed countries. As a result, there are at least 27 known compliance cost research studies from 2000 until now. A summary of the research conducted from 2000 is presented chronologically in Appendix 1. This summary covers the researchers, the countries studied, the taxes and taxpayers being investigated, the research methodology, and the main results of each study. This summary is intended to complement previous compilations of research on compliance costs, as discussed above.

## 2.2 Studies of Compliance Costs in Asia, Africa, and Transition Countries

In Asia, research into compliance costs was started by Ariff with research in Singapore for corporate income taxation in 1994 (Ariff, Loh, and Talib 1995) and 1996 (Ariff, Ismail, and Loh 2002). He continued with the research in Malaysia on corporate income taxation (Loh et al. 1995) and on small and medium enterprises (Henefah, Ariff, and Kasipillai 2001). These studies<sup>1</sup> form the basis of further analysis in Ariff and Pope (2002). There is also a study in Hong Kong on corporate taxation (Cheung et al. 1999). In India there are two studies, namely on individual taxpayers (Chattopadhyay and Das-Gupta 2002a) and corporate taxpayers (Chattopadhyay and Das-Gupta 2002b).

In transition countries, there is research in Slovenia on both individuals (Klun 2004a) and companies (Klun 2004b), Croatia on small businesses (Blažić 2004), and Armenia on corporations (Jrbashyan and Harutyunyan 2006). Tax compliance costs research has been conducted by the World Bank Group. It consists of four studies, namely in South Africa on small businesses (The Investment Climate Advisory Service 2007), in Ukraine on both companies and sole proprietors (The Investment Climate Advisory Service 2009), in Peru (unpublished as yet) and in Yemen where the report is intended for internal purposes and has not been published (Coolidge 2010, p. 3-4).

In Indonesia, tax compliance costs research has been lagging behind that of other countries. As indicated by Ariff and Pope (2002, p. 28), compliance costs research in some countries such as Indonesia is not an urgent issue because of more important matters such as modernisation or corruption eradication in tax administration. In addition, based on anecdotal observation, the number of tax researchers and the number of periodicals or journals on taxation in Indonesia is much lower than those of other countries. This probably discourages interest in tax research in general.

However, there are two studies regarding compliance costs in Indonesia, although unfortunately both studies do not estimate the magnitude of the costs. Heij (1993, p. 21) argues that the costs to fulfil tax obligations in Indonesia is somewhat affected by the uncertainties of tax liabilities. Prasetyo (2003) discusses the factors influencing compliance costs in Indonesia, and classifies the costs into controllable and uncontrollable costs. In addition, he notes that there are, so far, two studies related to the computation of compliance costs, namely in a management consulting company and in a plantation company, both of which are not publicly available.

In short, the subject of compliance costs in Indonesia is still at the second level of awareness, which is 'qualitative recognition by professionals,' a term introduced by Pope (1993, p. 2-7) as one of six levels of awareness of compliance costs in one country or jurisdiction.

---

1 The South-East Asian studies were based on the questions and method used in the Australian study on public companies by Pope, Fayle and Chen (1991).

### 3 Taxation in Indonesia

Indonesia is a country in Southeast Asia currently categorized as one of 150 countries in the world as “emerging and developing economies” by the International Monetary Fund (2010, p. 63). The population is at present around 245 million (Biro Pusat Statistik 2010), making it the fourth most populous country in the world. The Gross Domestic Product (GDP) of Indonesia in 2009 is approximately US\$540.273 billion (Bank Indonesia 2011; World Bank 2011), and ranked 14<sup>th</sup> for the biggest economy in the world (CIA 2011). The GDP per capita is currently US\$2,050, categorized as a “lower middle income” country by the World Bank (2011).

Administratively, Indonesia is a unitary state, comprising one central government, 33 provinces, and 497 regencies and municipalities (Biro Pusat Statistik 2010). In order to finance central government expenditure, Indonesia depends on tax revenue with the contribution of 70% of total domestic revenue in its country’s budget (Directorate General of Taxes 2012). The structure of tax revenue is presented in Table 1.

**Table 1: Tax Revenue in Indonesia, 2010**

No	Type of Tax	Revenue in 2010, IDR billion	%
1	Income tax	265,265.04	52.54
2	Value-Added Tax	236,162.90	46.77
3	Other taxes	3,473.51	0.69
	<i>Overall</i>	<i>504,941,06</i>	<i>100</i>

Note: IDR=the Indonesian Rupiah, the official currency of the Republic of Indonesia. At the end of 2010, US\$1=IDR9,010. Source: Directorate General of Taxes, 2011.

The current tax rate for income tax is 25% for companies and ranges from 5% to 30% for individuals depending on the income level (Income Tax Law, Directorate General of Taxes 2008). The rate for Value-Added Tax is 10% (VAT Law, Directorate General of Taxes 2009).

Indonesia has implemented a self-assessment system since 1983 (Gillis 1985, p. 94) in which taxpayers are required to calculate and report their obligation on a regular basis, either monthly or annually. Besides reporting their own taxes, taxpayers are also subject to withholding taxes in which taxpayers withhold tax payable on certain payments to other taxpayers and then remit said tax to the government. Currently these withholding taxes cover five types of income tax, namely tax on employees’ salary, tax on income from providing services, tax on income from assets (interest, rent, dividend), tax on payment to foreigners, and tax on certain industries (paper, steel, automotive).

Taxation in Indonesia is administered by the Directorate General of Taxes (DGT) as a part of the Ministry of Finance (MOF). It comprises one headquarters and 28 regional offices. Taxpayers in Indonesia are registered based on their relative size either nationally or regionally. The national largest taxpayers are administered in Large Taxpayers Offices (LTOs) while the regional largest taxpayers are managed in Medium Taxpayers Office (MTOs) which also oversee foreign investment companies and public companies. The remaining taxpayers are under the administration of Small Taxpayers Offices (STOs). Currently there are four LTOs, 28 MTOs, and 299 STOs (Directorate General of Taxes 2010, p. 24).

## 4 Research methodology

### 4.1 Pilot study, sample, population, and response rate

A pilot study was conducted in May 2011, a month after the due date for taxpayers to submit their annual income tax returns. As many as 28 questionnaires were distributed directly by the Account Representatives (ARs) to the taxpayers in the Large Taxpayers Office Two (LTO2) in Jakarta with one AR per one taxpayer. After a three week period, three completed responses were received, a response rate of 10.7%.

In order to better compose the questionnaire, a series of discussions were held at the beginning of a data collecting trip to Indonesia (by the first author). The discussions were held separately with one tax manager of one large taxpayer, two tax officials from DGT, and two ARs from LTO2. The final questionnaire was modified from the initial version, with the following changes.

First, to keep the respondents informed, the description and definition of the terms, such as *compliance costs*, *direct* and *indirect costs*, and *additional costs* were located closely to the questions bearing those terms. Previously, they were located at the beginning of a set of questions. Secondly, the description of each term as mentioned above was shortened to reduce the space without losing their meaning. Thirdly, the types of expenses related to compliance costs were simplified. Previously, there were separate questions on how much are the costs for stationery, travel expenses, and other expenses. In the final version, those three questions were grouped as one as "other costs." The final version of the questionnaire is attached in Appendix 2.<sup>2</sup>

The population for this research is large corporate taxpayers, defined for the purpose of this research as all taxpayers that are registered in the LTOs and MTOs. The total number of corporate taxpayers is 28,681, with any individual taxpayers who are registered in these LTOs and MTOs being excluded.

In anticipation of a low response rate, it was decided that a sample of 3,000 would be used. In order to maximize the number of responses especially regarding statistical

---

2 The results of the second part of this questionnaire, which deals with attitudes toward tax administration, are not discussed here and will be considered separately in a subsequent article.

significance, the sample was taken from the database of taxpayers registered in LTOs and MTOs. This sample was selected using stratified random sampling with business sectors as the strata. Details are presented in Table 2.

**Table 2: Population and Samples**

<b>Business Sectors</b>	<b>Population</b>	<b>% of Population</b>	<b>Number in Sample</b>
Retail And Wholesale Trade	11,130	38.81	1,164
Manufacturing	6,545	22.82	685
Services	1,367	4.77	143
Transportation, Warehouse, Communication	1,470	5.13	154
Construction	1,486	5.18	155
Real Estate, Rent	1,941	6.77	203
Mining, Extraction	247	0.86	26
Others	4,495	15.67	470
<i>Overall</i>	<i>28,681</i>	<i>100.00</i>	<i>3,000</i>

Source: Directorate General of Taxes, 2012

The questionnaires were sent to selected taxpayers on 19 September 2011. As many as 500 first reminders were sent on 10 October 2011 based on a random selection of the sample, followed by the second and final reminders on 24 October 2011. A summary of survey activities is presented in Table 3.

**Table 3: Summary of Questionnaire Mail-Out and Sample**

<b>No</b>	<b>Activities</b>	<b>Number</b>
1	Questionnaires sent	3,000
2	Out of frame	6
3	Responses received	191
4	First reminder sent	500
5	Responses received after first reminder	37
6	Second reminder sent	500
7	Responses received after second reminder	19
8	Total responses received	247
9	Unusable responses	1
	<i>Usable responses</i>	<i>246</i>

The overall response rate of this research is thus 8.2% (246 divided by 2,994).

## 4.2 Non-response bias

In order to tackle the issue of non-response bias, a one question post card was provided for the taxpayers who did not wish to answer the full questionnaire; this method was first introduced by Allers (1994). The question on the post card compares non respondents' compliance costs with the compliance costs of similar companies who did respond. A total of 19 responses were received. A comparison of the answers to the one question on the post card and the same question in the full questionnaire is presented in Table 4.

**Table 4: Comparison of Responses on Compliance Costs from the 'One Question Post Card' and Full Questionnaire**

No.	Comparison of Compliance Costs with Similar Companies	Number of responses of One question response	%	Number of Responses of Full Questionnaires	%
1	Significantly lower	0	0.00	1	0.47
2	Somewhat lower	1	5.26	45	21.13
3	Relatively the same	13	68.42	139	65.26
4	Somewhat higher	4	21.05	18	8.45
5	Significantly higher	1	5.26	10	4.69
	<i>Overall</i>	<i>19</i>	<i>100.00</i>	<i>213</i>	<i>100.00</i>

Coefficient correlation of the percentage for each answer is used to investigate the closeness of those two sets of answers. The coefficient correlation between these two sets of answers is 93.14%, meaning that the compliance costs of respondents and non-respondents are similar.

## 4.3 Profile of respondents

Based on the sectors in which the taxpayers are operating, the composition is: retail and wholesale trade 77 companies (31%), manufacturing 81 (33%), services 19 (8%), transportation and warehouse 13 (5%), construction 13 (5%), real estate 6 (2%), mining and extraction 8 (3%), and others 29 (12%). The premises of the business are mainly in the Island of Java (193 companies; 78%), while the other 20 (8%) are in Sumatera Island, six (2%) in Sulawesi Island, and 27 (11%) in other islands.

In terms of the duration of businesses, 184 companies (75%) have been operating for more than 10 years, while 50 companies (20%) are between 5 and 10 years in operation, and 12 companies (5%) have been in business for one to five years. Likewise, a majority of the respondents (211 corporations; 86%) have been registered in their current tax offices for more than five years; among those, 100 companies (41%) have been registered for more than 10 years. There are 24 companies (10%) that



have been registered between one and five years, and 11 (4%) companies that have been registered for less than one year.

Based on the number of employees, the composition is to some extent balanced: under 100 employees 64 companies (26%), between 101 and 500 employees 70 companies (28%), between 501 and 1,000 employees 69 companies (28%), between 1,001 and 5,000 employees 28 companies (11%), and over 5,000 employees 15 companies (6%).

The composition based on the amount of turnover is: below IDR3billion 6 companies (2%), between IDR3,000,000,001 and IDR10billion 39 companies (16%), between IDR10,000,000,001 and IDR50billion 68 companies (28%), between IDR50,000,000,001 and IDR100billion 36 companies (15%), and over IDR100billion 97 companies (39%). Similarly, based on the amount of total assets, the composition is: below IDR3billion 18 companies (7%), between IDR3,000,000,001 and IDR10billion 53 companies (21%), between IDR10,000,000,001 and IDR50billion 41 companies (17%), between IDR50,000,000,001 and IDR100billion 29 companies (12%), and over IDR100billion 105 companies (43%).

Of the 246 respondents, 95 companies (39%) were audited in 2010, 36 companies (15%) proposed a tax objection, and 14 corporations (6%) proposed a tax appeal.

#### 4.4 Comparison with government statistical data

Besides the definition of large taxpayer mentioned above, there is also a definition provided by the Indonesian Statistical Bureau (BPS or Biro Pusat Statistik). The BPS defines a large company as a company whose turnover is more than IDR3 billion per annum. Based on the latest census of BPS, the number of large companies is 45,600. A comparison of large companies' data provided by the DGT and BPS is presented in Table 5.

**Table 5: Composition of Large Companies by Biro Pusat Statistik and Directorate General of Taxes Categorisation**

Location	BPS (thousand)	DGT (thousand)	BPS (%)	DGT (%)
Java	31.1	21.6	68.4	75.3
Sumatera	7.1	4.2	15.6	14.8
Bali + Nusa Tenggara	2	1.0	4.4	3.6
Kalimantan	2.5	1.0	5.5	3.5
Sulawesi	2.2	0.8	4.8	2.8
Maluku Papua	0.6	-	1.3	0.0
<i>Overall</i>	<i>45.5</i>	<i>28.7</i>	<i>100.0</i>	<i>100.0</i>
<b>Sectors</b>				

Location	BPS (thousand)	DGT (thousand)	BPS (%)	DGT (%)
Retail And Wholesale Trade	18.9	11.1	41.45	38.81
Manufacture	8.7	6.5	19.08	22.82
Service	7.3	1.4	16.01	4.76
Transportation, Warehouse, Communication	2.4	1.5	5.26	5.13
Construction	1.9	1.5	4.17	5.18
Real Estate, Rent	1.7	1.9	3.73	6.77
Mining, Extraction	0.4	0.2	0.88	0.86
Others	4.3	4.5	9.43	15.68
<i>Overall</i>	<i>45.6</i>	<i>28.7</i>	<i>100.00</i>	<i>100.00</i>

Sources: Biro Pusat Statistik 2008; Directorate General of Taxes 2012

From Table 5 it can be seen that in both data the majority of large companies are located in Java Island, followed by Sumatera. The retail and wholesale trade sector is ranked first in terms of business sector in both sets of data, followed by the manufacturing sector.

In order to test the proximity of data between BPS and DGT, a correlation coefficient is used. The correlation coefficients between these two sets of data are 99.97% for location and 91.8% for sector, meaning that they are very closely related. In other words, data from DGT used in this research is representative of that from BPS, albeit on a smaller scale, with around 29,000 companies compared to 46,000 companies, respectively.

## 5 Main results

### 5.1 Average tax compliance costs

In 2010 the average compliance costs per company are estimated to be IDR420,933,442<sup>3</sup> (around A\$55,000 at the exchange rate in December 2010) and they differ across the economic sector in which the company is operating as shown in Table 6.

3 All figures relating to Indonesian tax compliance costs that follow are estimated; in other words they are approximate rather than being a precise figure. This caveat is in line with previous studies in the field.

**Table 6: Average Compliance Costs by Sector, 2010**

No	Sector	Compliance Costs, IDR
1	Retail and wholesale trade	506,022,878
2	Manufacture	488,861,830
3	Service	249,647,368
4	Transportation, warehouse, communication	230,055,600
5	Construction	307,434,370
6	Real estate, rent	305,508,820
7	Mining, extraction	51,375,000
8	Others	379,770,152
	<i>Weighted average</i>	420,933,442

Source: First author's calculation

The results show that the largest compliance costs are borne by companies operating in the trading sector, and the smallest by those in the mining and extraction sectors. However, due to the small sample size of the latter sector (6 companies), this surprisingly low figure should be treated with great caution.

## 5.2 The features of tax compliance costs

### 5.2.1 The components of average compliance costs

A breakdown of average compliance costs is presented in Table 7.

**Table 7: Components of Average Compliance Costs**

No	Element	Average amount, IDR	% of total
1	Routine costs-staff	201,635,657	47.90
2	Routine costs-others	27,244,805	6.47
3	Routine costs-consultants fee	39,863,415	9.47
4	Routine costs-time spent by management	71,273,550	16.93
5	Costs related to tax returns	21,168,110	5.03
6	Costs related to tax audit	43,496,789	10.33
7	Costs related to tax objection	10,530,589	2.50
8	Costs related tax appeal	5,720,529	1.36
	<i>Overall</i>	420,933,442	100.00

Source: First author's calculation

From Table 7, it can be seen that the largest contributor of the costs is the payment for tax staff in the companies, which on average accounts for almost half of the costs, followed by time spent by management and then audit costs. The proportion of routine costs (numbers one to five in Table 7) is 85.8%, and the proportion of non-routine costs is 14.2%.

### 5.2.2 Internal and external costs

Payments regarding compliance can be divided into payments for internal needs and for external parties, as presented in Table 8.

**Table 8: Composition of Internal and External Costs**

No	Payment	Average amount, IDR	%
1	<b>Internal costs</b>		
	Routine staff	201,635,657	47.90
	Routine others	27,244,805	6.47
	Time value	71,273,550	16.93
	Costs related to tax returns - staff	1,327,439	0.32
	Costs related to tax returns - others	618,923	0.15
	Costs related to tax audit - staff	2,148,171	0.51
	Costs related to tax audit - others	704,106	0.17
	Costs related to tax objection - staff	1,854,675	0.44
	Costs related to tax objection - others	302,947	0.07
	Costs related to tax appeal - staff	675,102	0.16
	Costs related to tax appeal - others	123,679	0.03
	<i>Overall Internal Costs</i>	<i>307,909,052</i>	<i>73.15</i>
2	<b>External costs</b>		
	Routine costs-tax consultants	39,863,415	9.47
	Costs related to tax returns	19,221,748	4.57
	Costs related to tax audit	40,644,512	9.66
	Costs related to tax objection	8,372,967	1.99
	Costs related to tax appeal	4,921,748	1.17
	<i>Overall External Costs</i>	<i>113,024,390</i>	<i>26.85</i>
	<i>Overall Compliance Costs</i>	<i>420,933,442</i>	<i>100</i>

Source: First author's calculation

From Table 8 it can be seen that nearly three-quarters of the costs are spent on internal factors, such as for staff and other costs/ items (utilities, stationery, transportation), while the remaining (just over a quarter) is spent for consultation and associated costs. The average number of persons employed to deal with tax matters is presented in Table 9.

**Table 9: Number of Full-time Employees Dealing with Taxes**

No.	Number of staff	Number of respondents	%
1	0	2	0.8
2	1	69	28.0
3	2	82	33.3
4	3	66	26.8
5	4	6	2.4
6	5	13	5.3
7	6	1	0.4
8	7	2	0.8
9	8	2	0.8
10	10	1	0.4
11	17	1	0.4
12	18	1	0.4
	<i>Overall</i>	<i>246</i>	<i>100.0</i>

Source: First author's calculation

Besides using staff, a corporate taxpayer also uses the time of its managers, such as its chief executive officer (CEO), chief financial officer (CFO), accounting manager, or other managers, to deal with tax matters. The time spent by each person is presented in Table 10.

**Table 10: Time Used by Managers to Comply with Tax Matters**

	Time of CEO (hours per month)	Time of CFO (hours per month)	Time of Accounting Manager (hours per month )	Time of Other Managers (hours per month)
Mean	1.58	8.36	23.74	10.73
Median	1.00	4.00	8.00	0.00
Std. Deviation	2.003	16.951	32.845	23.160

Source: First author's calculation

### 5.2.3 Computational and planning costs

The expenditure for staff salaries, for other costs such as utilities or stationery, and for tax consultants can either be used to compute tax payable (computational costs) or to better manage and/or minimize future tax liability (planning costs). The percentage of the costs across sectors is presented in Table 11.

**Table 11: Computational and Planning Costs**

SECTOR	Computational costs (%)				Planning costs (%)			
	Staff	Others	Consultants	Average	Staff	Others	Consultants	Average
Retail And Wholesale	46	54	64	55	54	46	36	45
Manufacture	70	76	84	77	30	24	16	23
Services	89	93	96	93	11	7	4	7
Transportation, Warehouse	85	84	40	70	15	16	60	30
Construction	76	89	13	59	24	11	87	41
Real Estate, Rent	77	84	49	70	23	16	51	30
Mining, Extraction	84	83	80	82	16	17	20	18
Others	76	86	81	81	24	14	19	19
Average	75	81	63	73	25	19	37	27

Source: First author's calculation

From Table 11 it can be seen that on average the majority of the costs (73%) are incurred to compute tax payable, while the remaining 27% is used for planning purposes. Based on the sector in which the companies operate, the companies in the service sector incur the largest percentage of computational costs (93%), while the lowest are those in the retail and wholesale sectors. Compared to other cost drivers, costs for consultants related to planning purposes are the largest (37% compared to 25% for staff and 19% for other costs).

#### 5.2.4 Compliance costs by size

Average compliance costs, based on company size measured in terms of the number of employees, the amount of turnover, and the amount of assets, are presented in Tables 12, 13, and 14, respectively. Compliance costs per group are calculated by dividing the average compliance costs by the mid-point unit of the size in each group, i.e. the number of employees, the amount of turnover, and the amount of assets respectively. The data shows that the compliance costs are regressive in terms of size. In other words, costs per unit decrease as the size increases, showing the economies of scale effect which is common to nearly all tax compliance costs studies.

**Table 12: Compliance Costs Based on the Number of Employees**

Group	Number of Employees	Average Compliance Costs, IDR	Compliance Costs per employee, IDR
1	Up to 100 employees	279,979,652	5,599,593
2	101-500 employees	311,705,581	1,246,822
3	501-1,000 employees	491,688,984	655,585
4	1,001-5,000 employees	614,801,978	245,920
5	More than 5,000 employees	828,287,813	110,438

Source: First author's calculation

**Table 13: Compliance Costs Based on Annual Turnover**

Group	Annual Turnover	Average Compliance Costs, IDR	Compliance Costs per IDR of annual turnover
1	Less than IDR3,000,000,000	168,470,943	0.112
2	IDR3,000,000,001-IDR10,000,000,000	193,615,370	0.030
3	IDR10,000,000,001-IDR50,000,000,000	250,174,464	0.008
4	IDR50,000,000,001-IDR100,000,000,000	464,515,251	0.006
5	More than IDR100,000,000,000	631,478,239	0.004 a

Note: a: A mid-point turnover of IDR150,000,000,000 is assumed for this group.

Source: First author's calculation

**Table 14: Compliance Costs Based on Total Assets**

Group	Total Assets	Average Compliance Costs, IDR	Compliance Costs per IDR of Assets
1	Less than IDR3,000,000,000	205,759,706	0.137
2	IDR3,000,000,001-IDR10,000,000,000	236,311,751	0.036
3	IDR10,000,000,001-IDR50,000,000,000	209,442,854	0.007
4	IDR50,000,000,001-IDR100,000,000,000	379,817,911	0.005
5	More than IDR100,000,000,000	644,948,123	0.004 a

Note: a: A mid-point total assets of IDR150,000,00,000 is assumed for this group.

Source: First author's calculation

As shown in Tables 12, 13, 14 the compliance costs per employee, IDR annual turnover, and IDR total assets decrease consistently with the increase in the number of employees, the amount of annual turnover and the amount of total assets, respectively.

### 5.2.5 Compliance costs by size of tax payments

Overall, large taxpayers face three main groups of tax, namely income tax, VAT and withholding taxes. The comparison between the average compliance costs and tax payments for each group is presented in Tables 15, 16, and 17. Again, the data shows that the costs are regressive, meaning that the larger the company paying tax, the smaller the compliance costs per IDR tax payment.

**Table 15: Compliance Costs Based on Income Tax Payment**

Group	Income Tax Payment Group	Compliance Costs, IDR	Compliance Costs per IDR Tax Payment
1	Less than IDR100,000,000	471,582,220	9.432
2	IDR100,000,001-IDR500,000,000	496,283,499	1.985
3	IDR500,000,001-IDR1,000,000,000	388,932,421	0.519
4	IDR1,000,000,001-IDR10,000,000,000	315,981,754	0.057
5	IDR10,000,000,001-IDR50,000,000,000	703,360,467	0.023
6	More than IDR50,000,000,000	382,206,088	0.005 a

Note: a: A mid-point of IDR75,000,000,000 is assumed for this group

Source: First author's calculation



**Table 16: Compliance Costs Based on Value-Added Tax Payment**

Group	VAT Payment Group	Compliance Costs, IDR	Compliance Costs per IDR Tax Payment
1	Less than IDR100,000,000	246,639,488	4.933
2	IDR100,000,001-IDR500,000,000	368,385,516	1.474
3	IDR500,000,001-IDR1,000,000,000	398,501,588	0.531
4	IDR1,000,000,001-IDR10,000,000,000	611,977,315	0.111
5	IDR10,000,000,001-IDR50,000,000,000	855,414,088	0.029 a

Note: a: A mid-point of IDR75,000,000,000 is assumed for this group

Source: First author's calculation

**Table 17: Compliance Costs Based on Withholding Taxes Payment**

Group	Withholding Taxes Payment Group	Compliance Costs, IDR	Compliance Costs per IDR Tax Payment
1	Less than IDR100,000,000	205,627,348	4.113
2	IDR100,000,001-IDR500,000,000	378,845,925	1.515
3	IDR500,000,001-IDR1,000,000,000	376,419,088	0.502
4	IDR1,000,000,001-IDR10,000,000,000	836,602,673	0.152
5	IDR10,000,000,001-IDR50,000,000,000	855,414,088	0.029 a

Note: a: A mid-point of IDR75,000,000,000 is assumed for this group

Source: First author's calculation

### 5.2.6 Compliance costs by the types of tax

Respondents were asked how they allocate their compliance costs into three different types of tax, namely CIT, VAT and withholding taxes, with results shown in Table 18. From this it can be seen that, on average, VAT requires the most resources (44%) compared with other types of tax (CIT 28% and withholding taxes 31%), except for those companies operating in the services sector where VAT only accounts for 28% of total compliance costs.

**Table 18: Allocation of the Costs by Type of Tax**

Sector	CIT (%)	VAT (%)	Withholding Taxes (%)
Retail And Wholesale	23	46	32
Manufacture	28	40	33
Services	51	28	37

Sector	CIT (%)	VAT (%)	Withholding Taxes (%)
Transportation, Warehouse	21	55	24
Construction	36	38	25
Real Estate, Rent	21	48	31
Mining, Extraction	20	41	39
Others	26	52	23
<i>Average</i>	28	44	29

Source: First author's calculation

### 5.2.7 Reasons for using tax consultants

Respondents were asked the reasons why in 2010 they used tax consultants, and 122 respondents provided answers (with multi responses possible), as presented in Table 19.

**Table 19: Reasons of Using Tax Consultants**

No.	Reasons	Number of Responses	%
1	It is difficult to obtain explanations from tax office	20	12.35
2	The benefits of using tax consultants exceeds the costs	44	27.16
3	It is the policy from taxpayers' headquarters	85	52.47
4	Others	13	8.02
	<i>Overall</i>	162	100.00

Note: "Others" comprise: Internal staff not capable (5 responses); to avoid the risk of audit (3), to avoid the risk of miscalculation (2); tax forms are complicated (2); subject too difficult to understand (1). The total of 162 responses does not match with the number of respondents completing the answers (122) because respondents were allowed to choose more than one answer.

### 5.2.8 Costs of tax audits, objection, and appeal

Respondents were asked about non-routine costs namely the costs to submit a tax return, to deal with a tax audit, tax objection and tax appeal. The costs for each occurrence are presented in Table 20. From this it can be seen that among non-routine activities, the largest costs are incurred when the companies are audited, while the lowest are when the companies are proposing a tax objection. It is also evident that when conducting non-routine activities, companies rely on tax consultants that contribute 93%, 77% and 86% of the costs in tax audits, tax objections, and tax appeals, respectively. Dealing with tax audits is the most expensive non-routine compliance activity undertaken by consultants, followed by tax objections and appeals.

**Table 20: Costs of Non-Routine Activities**

Non-Routine Activities	Number of Cases	Staff		Others		Consultants		Total
		Average costs, IDR	%	Average costs, IDR	%	Average costs, IDR	%	
Audits	95	5,562,632	4.94	1,823,263	1.62	105,247,895	93.44	112,633,790
Objections	36	12,673,611	17.12	4,140,278	5.59	57,215,278	77.29	74,029,167
Appeals	14	11,862,500	11.80	2,173,214	2.16	86,482,143	86.04	100,517,857

Source: First author's calculation

### 5.3 GROSS COMPLIANCE COSTS

To obtain (national) gross compliance costs, the mean compliance costs for each sector are multiplied by the number of companies in each sector in the population.<sup>4</sup> The computation of gross compliance costs is presented in Table 21. A relative comparison of gross compliance costs with Indonesian tax revenue and Gross Domestic Product (GDP) is presented in Table 22.

**Table 21: Gross Large Taxpayers' Compliance Costs, 2010**

No.	Sector	Compliance Costs, IDR	Population	Gross Compliance Costs, IDR million
(1)	(2)	(3)	(4)	(5)=(3)*(4)
1	Retail and wholesale trade	506,022,878	11,130	5,632,034
2	Manufacture	488,861,830	6,545	3,199,600
3	Service	249,647,368	1,367	341,267
4	Transportation, warehouse, communication	230,055,600	1,470	338,181
5	Construction	307,434,370	1,486	456,847
6	Real estate, rent	305,508,820	1,941	592,992
7	Mining, extraction	51,375,000	247	12,689
8	Others	379,770,152	4,495	1,707,066
	<i>Overall</i>	<i>420,933,442</i>	<i>28,681</i>	<i>12,280,681</i>

Source: First author's calculation

**Table 22: Comparison of Gross Compliance Costs, Tax Revenue, and Gross Domestic Product, 2010**

No.	Item	Amount
1	Gross Compliance Costs of Large Taxpayers, IDR trillion	12.280
2	National Tax Revenue from Large Taxpayers, IDR trillion	388
3	GDP in 2010, IDR trillion	6,422
	<i>Gross Compliance Costs as Percentage of Tax Revenue</i>	<i>3.16</i>
	<i>Gross Compliance Costs as Percentage of GDP</i>	<i>0.19</i>

Sources: First author's calculation, Biro Pusat Statistik, and Directorate General of Taxes 2012

4 Grossing up by size of company is also possible. Unfortunately tax population data limitations preclude this in the present study.

## 5.4 Cash flow benefits

Cash flow benefits arise where there is a delay between the payable or collection date and the due date. During that time interval, taxpayers enjoy risk-free funds before the funds are paid to the government. The amount of cash flow benefits is obtained by multiplying the revenue of each type of tax with an appropriate interest rate (reflecting the cost of borrowing) and the duration of this interest-free period<sup>5</sup>.

According to current Indonesian tax laws, there are sixteen different types of taxes related to large taxpayers with different due dates. They consist of a CIT, six kinds of tax on consumption, six kinds of withholding taxes, two stamp duties tax, and one category under 'Other Indirect Taxes'. Taxes on consumption include Domestic VAT, International VAT, Other VAT, Domestic Tax on Sales of Luxurious Goods, International Tax on Sales of Luxurious Goods, and Other Tax on Sales of Luxurious Goods. Withholding taxes consist of Income Tax Article 21, Article 22, Article 22 Import, Article 23, Article 26, and Income Tax Final. The types, national revenue and due date of each type of tax is presented in Table 23.

**Table 23: Types, National Revenue, and Due Date of Each Type of Tax**

No	Type of Taxw	National Large Taxpayers Tax Revenue, IDR million	Due Date
1	Corporate Income Tax (Article 25 and Article 29)	97,996,240	15 <sup>th</sup> day of the following month, the end of the fourth month the following year
2	Domestic VAT	102,210,318	The end of the following month
3	International VAT	74,210,344	Same day
4	Other VAT	119,197	The end of the following month
5	Domestic Tax on Sales of Luxurious Goods	8,175,114	The end of the following month
6	International Tax on Sales of Luxurious Goods	3,751,155	Same day

5 As a formula, the national cash flow benefits can be written as:

$$CFB = \sum_{i=m}^n TR_i * \left( \frac{P_i}{365} \right) * I_i$$

Where CFB = national cash-flow benefits  
 m,n = type and number of taxes  
 TR = tax revenue  
 P = interest-free period  
 I = average interest rate

No	Type of Tax	National Large Taxpayers Tax Revenue, IDR million	Due Date
7	Other Tax on Sales of Luxurious Goods	3,743	The end of the following month
8	Income Tax Article 21	24,506,109	10 <sup>th</sup> day of the following month
9	Income Tax Article 22	1,616,086	The following day
10	Income Tax Article 22 Import	20,964,933	Same day
11	Income Tax Article 23	9,713,508	10 <sup>th</sup> day of the following month
12	Income Tax Article 26	18,917,523	10 <sup>th</sup> day of the following month
13	Income Tax Final	23,943,371	10 <sup>th</sup> day of the following month
14	Stamp Duties	66,267	Same day
15	Sales of Stamp Duties	1,075,986	Same day
16	Other Indirect Taxes	44	Same day
	<i>Overall</i>	<i>388,070,243</i>	

Source: Directorate General of Taxes, 2011

The current tax laws regulate that all types of tax (as in Table 23) have to be paid and reported each tax period, i.e. each month, with the exception of taxes that have to be paid in the same day or the following day, namely International VAT (number 3 in Table 23), International Tax on Luxurious Goods (number 6), Income Tax Article 22 (number 9), and Income Tax Article 22 Import (number 10), Stamp Duties (number 14), Sales of Stamp Duties (number 15), and Other Indirect Taxes (number 16). It means that the actual interest-free period enjoyed by a taxpayer could be longer than the periods stated in Table 23 because the above interest-free periods are counted from the end of transaction period (month) to the date the tax should be paid, instead of from the date the transaction takes place (hence, the tax is theoretically payable), which could range from the beginning of the month until the last day of the month.

To accurately calculate the interest-free period of each tax, the actual transaction dates should be known, which is almost impossible to do. Considering that business transactions take place in any day during the month, for the sake of simplicity all transactions that lead to tax obligations are assumed to take place at the middle of the month. Consequently, fifteen days are added to the interest-free periods mentioned in Table 23 in the cash flow benefits calculation.

The interest rate used in the calculation is the interest rate of working capital loans from banks to corporations. The reason behind this selection of interest rate is that the interest-free money held by taxpayers before it is paid to the government is similar to an additional working capital otherwise obtained in the form of bank loans. The rate used is the unweighted average rate of working capital loans from state banks,

regional government banks, private national banks, foreign bank and joint banks, and commercial banks, whose data are obtained from the Indonesian central bank (BI, Bank Indonesia, 2012). The interest rate in 2010 for working capital loans for each kind of bank is presented in Table 24.

**Table 24: Annual Interest Rates on Working Capital Loans, 2010**

No	Type of Banks	Average Annual Interest Rate, %
1	State Banks	13.40
2	Regional Government Banks	13.70
3	Private National Banks	13.52
4	Foreign And Joint Banks	9.51
5	Commercial Banks	13.22
	<i>Average</i>	<i>12.67</i>

Source: Author's calculation based on Bank Indonesia (2012)

Using the above formula and data, the cash flow benefits in 2010 are estimated to be IDR2,898,544 million or 23.60% of the gross compliance costs.

## 5.5 Tax deductibility benefits

Tax deductibility benefit arises because taxpayers have to spend a certain amount of money in fulfilling their tax obligations (which is synonymous with the term *compliance costs*). In turn, these costs are deductible from the taxable income, meaning that by meeting tax laws, taxpayers can actually reduce their taxes. In aggregate terms, tax deductibility benefits therefore equals the applicable income tax rate times the compliance costs.

By definition, tax deductibility benefits could only be enjoyed by companies that make profits in the year the expenses, or in this case the compliance costs, are spent. In other words, companies that were making a loss in 2010 could not enjoy tax deductibility benefits in the same year. However, based on the Indonesian current income tax law, the loss in a particular year can be carried forward to the next five years, meaning that loss making companies in 2010 could enjoy the benefits in the following years. Consequently, loss making companies in the previous five years could enjoy tax deductibility benefits in 2010.

In order to accurately calculate national tax deductibility benefits, the number of loss making companies both in 2010 that carry forward the loss to the next year and in 2009 (and in the previous years) that compensate the loss in 2010 have to be known. Unfortunately this data is not publicly available. Hence, the national tax deductibility benefits are calculated as national compliance costs times the applicable income tax rate. This estimation therefore needs to be treated with some caution.

The current rate of corporate income tax is 25 per cent, so the estimated tax deductibility benefits are 25 per cent of the national compliance costs of IDR12.18 trillion, or IDR3.05 trillion.

## 5.6 Net compliance costs

Based on the above analysis, the net compliance costs are estimated at IDR 7.3 trillion, and around 1.87 per cent of tax revenue and 0.11 per cent of Gross Domestic Product, as presented in Table 25.

**Table 25: Net Compliance Costs in Monetary terms, and as a Percentage of Tax Revenue and Gross Domestic Product**

No.	Items	Amount, IDR trillion
1	Gross Compliance Costs of Large Taxpayers, IDR trillion	12.280
2	Cash Flow Benefits, IDR trillion	2.898
3	Tax Deductibility Benefits, IDR trillion	3.046
4	Net Compliance Costs, IDR trillion	6.335
5	National Tax Revenue from Large Taxpayers, IDR trillion	388
6	GDP in 2010	6,422
	<i>Net Compliance Costs as Percentage of Tax Revenue</i>	<i>1.63</i>
	<i>Net Compliance Costs as Percentage of GDP</i>	<i>0.10</i>

Source: Author's calculation, Biro Pusat Statistik 21012, Directorate General of Taxes 2012

## 6 International comparison

An international comparison is presented in order to confirm the broad findings of the research, and not to identify the differences, as suggested by Sandford (1995, p. 407). Pope (2003a, p. 210) notes that there are common findings among international research on tax compliance costs, namely that the costs are significant; they are regressive; and they are (beginning to be) considered in the political process.<sup>6</sup> Evans (2008, p. 456-459) agrees with the first two and notes that tax compliance costs are not reducing over time. Any international comparison is fraught with difficulty because of differing tax systems, tax culture and socio-economic characteristics, to name a few. In particular, with a very limited number of studies throughout the world for the same type of tax and ensuing compliance costs, the different years of studies must be noted. For example, comparing the work of Sandford et al (1989) and this research involves a time difference of over 20 years, during which time many changes to the

6 The extent to which tax compliance costs are recognised in a political and governance context of course will vary from country to country.



UK tax system (including possible ensuing increases in tax compliance costs) will have occurred. This reason alone means that any international comparisons need to be treated with the greatest caution.<sup>7</sup>

In the case of Indonesia, as shown in Table 22, the gross compliance costs of large corporate taxpayers account for 3.16% of tax revenue. This figure is well in the range of the international typical figures of two to ten per cent of each country's respective tax revenue (Evans 2008, p. 458). The regressive nature of Indonesian large taxpayers' compliance costs has been presented in Tables 12, 13, and 14 showing that (respectively) average compliance costs as a percentage of number of employees, annual turnover, and total assets decrease as the size of the company increases. Again, this confirms the broad finding of international research as shown by Evans (2008, p. 458). Unfortunately, because this current research does not cover multiple years, it is unknown whether the costs of large companies in Indonesia are decreasing or increasing over time.

The gross compliance costs estimate for large corporations in Indonesia in 2010, namely 3.16% of tax revenue, is relatively higher compared to those of other Asian countries such as 0.36% in Malaysia (Loh et al. 1995), 0.4% in Singapore (Ariff, Loh, and Talib 1995), and between 0.62% and 0.72% in India (Chattopadhyay and Das-Gupta 2002b). The United Kingdom is lower than Indonesia with corporation tax compliance costs accounting for 2.22% of tax revenue from corporations (Sandford, Godwin, and Hardwick 1989).

The Indonesian estimate is broadly comparable in terms of its compliance costs to tax revenue ratio for large businesses with three developed countries, namely the Netherlands at 4% (Allers 1994), the United States at 3.2% (Slemrod and Venkatesh 2002) and Canada at 2.7% (Erard 1997). However, it is significantly lower compared to 11.4%-23.7% for public companies' income tax in Australia (Pope and Fayle 1991) or 9.3% for businesses' overall taxes in Australia (Evans et al. 1998). In New Zealand, the figures are 1.92% for Pay as You Earn Tax, 1.7% for Fringe Benefit Tax, and 7.3% for Goods and Service Tax and 19% for business income tax (Sandford and Hasseldine 1992).

The gross compliance costs of large corporate taxpayers as a percentage of GDP in Indonesia are 0.19%. This figure is lower than that in other countries where similar estimates have been made, such as in New Zealand 2.5% (Sandford and Hasseldine 1992), the Netherlands 1.5% (Allers 1994), Australia 1.02% (Evans et al. 1998) and Canada 0.4% (Plamondon and Zussman 1998).

---

7 Detailed comparative international research is beyond the scope of this article. Nonetheless the estimates from various countries cited in this section are indicative of where Indonesia sits internationally regarding estimates of its corporate tax compliance costs for large taxpayers.

## 7 Limitations

This article estimates the compliance costs of large corporate taxpayers registered in the Large and Medium Taxpayers Offices in the Indonesian tax administration. The inclusion of taxpayers in these offices is not based on an absolute value such as the number of employees or the amount of turnover of those companies; rather it is based on their relative size or ranking nationally or regionally. A more robust definition is provided by the Indonesian statistical bureau, which is based on the level of annual turnover. However, the data from this agency does not include other supporting features such as the identity of the companies from which the sample could be drawn or the corresponding revenue for each type of tax that is useful in data analysis. Nevertheless, Section 4.4 especially Table 5 demonstrates that the data sets from both sources are similar.

The compliance costs investigated here are those of large companies only. The costs of medium and small companies, as well as individual taxpayers, need to be explored to obtain a more thorough picture of the tax compliance costs of Indonesian taxpayers. Future studies are needed in these areas.

In addition, the response rate of this research is somewhat low at 8.2%, which is lower than that of other Asian countries such as Malaysia at 16% (Loh et al. 1995), Singapore in 1994 at 23% (Ariff, Loh, and Talib 1995) and in 1996 at 20% (Ariff, Ismail, and Loh 2002), and Hong Kong at 12% (Cheung et al. 1999). Only India has a lower response rate of 1.15% (Chattopadhyay and Das-Gupta 2002b). However, with a total number of respondents of 246, the level of statistical confidence in this first (published) Indonesian tax compliance costs study is arguably sound.

## 8 Concluding remarks

A number of conclusions can be drawn from the foregoing analysis. First, the average compliance costs of large corporate taxpayers in Indonesia are around IDR420 million in 2010 (about A\$55,000 given the exchange rate as at December 2010). This figure is generally lower compared to that of developed countries, probably because of the low costs of Indonesian human resources (staff, managers, directors) as they contribute more than 64% of the total costs. Secondly, the components of the costs comprise routine and non-routine costs 86% and 14%, internal and external costs 73% and 27%, and computational and planning costs 73% and 27%, respectively. Thirdly, the compliance costs are clearly regressive in terms of the number of employees, annual turnover, total assets and tax payments. Fourthly, the gross and net national compliance costs of large companies account for 3.16% and 1.63% of tax revenue from that segment of taxpayers and 0.19% and 0.10% of the Gross Domestic Product, respectively. Finally, the cash flow benefits and tax deductibility benefits offset the gross compliance costs significantly with 24% and 25% savings respectively.

This is the first study to estimate the magnitude and the features of the tax compliance costs of large corporations in Indonesia and indeed is the first study to quantify tax

compliance costs in the country. Comparing with other countries could possibly be misleading because of the many differences in tax systems and other factors among countries, including different years of study. Thus detailed comparisons with individual countries is not investigated here, although a preliminary analysis indicates that Indonesian large corporate taxpayer compliance costs are much higher than in all Asian countries where studies have been undertaken and broadly comparable with those incurred in the developed economies of the Netherlands, USA and Canada. Considering that the major goal of any tax system is minimising the burden of both taxpayers and tax administration over and above the tax payment itself, it is expected that the tax administration could benefit from this research in the form of a better understanding of the costs associated with the fulfilment of tax obligations and better awareness of the consequences of tax policies on the likely level of compliance costs incurred by taxpayers. Particularly for taxpayers and other concerned parties such as tax consultants, this research is expected to supplement their knowledge of the overall burden on taxpayers to support their position in discussions with the Indonesian Government and the tax administration. In addition, it is hoped that this research encourages future compliance costs research on other segments of Indonesian taxpayers, such as individuals or small and medium businesses.

## References

- Alexander, W. Robert J., John D. Bell, and Stephen Knowles. 2004. Quantifying Compliance Costs of Small Businesses. In *Economics Discussion Papers*. Dunedin: University of Otago.
- Allers, Maarten. 1994. *Administrative and Compliance Costs of Taxation and Public Transfers in the Netherlands*. Groningen: Woltersgroep Groningen.
- Antara News Agency. 2010. *Tax Compliance in Indonesia is Low 2010* [cited 3 September 2010]. Available from <http://www.antaranews.com/view/?i=1201086345&c=EKB&s=>.
- Ariff, M., Z. Ismail, and Alfred Loh. 2002. "Compliance Costs of Corporate Income Taxation in Singapore, 1996." In *Taxation & Compliance Costs in Asia Pacific Economies*, edited by M Ariff and J Pope. Sintok: Universiti Utara Malaysia Press.
- Ariff, Mohamed, Alfred Loh, and Ameen Talib. 1995. "Compliance Costs of Corporate Income Taxation in Singapore, 1994." In *Taxation & Compliance Costs in Asia Pacific Economies*, edited by Mohamed Ariff and Jeff Pope. Sintok: University Utara Malaysia Press.
- Ariff, Mohamed, and Jeff Pope. 2002. *Taxation & Compliance Costs in Asia Pacific Economies*. Sintok: Universiti Utara Malaysia Press.
- Austan, Goolsbee, and Zittrain Jonathan. 1999. "Evaluating the Costs and Benefits of Taxing Internet Commerce." *National Tax Journal* no. 52 (3):413.

Bank Indonesia. 2011. *Indonesian Economic Indicators 2011* [cited 23 March 2011]. Available from <http://bi.go.id>.

———. 2012. *Statistik Ekonomi dan Keuangan 2012* [cited 28 February 2012]. Available from <http://www.bi.go.id/web/en/Statistik/Statistik+Ekonomi+dan+Keuangan+Indonesia/versi+HTML/Sektor+Moneter/>

Biro Pusat Statistik. 2010. *Trends of the Selected Socio-Economic Indicators of Indonesia*. Jakarta: Biro Pusat Statistik.

Blažić, Helena. 2004. Tax Compliance Costs of Small Business in Croatia. Institute of Public Finance.

Brunton, Colmar. 2005. Measuring the Tax Compliance Costs of Small and Medium-Sized Businesses – a Benchmark Survey Final Report. Inland Revenue.

Charron, Lucie, George Chow, and Janine Halbesma. 2008. The Hidden Tax Burden : A business Perspective on the Cost of Complying with Taxes. In *CFIB Tax Research Series*. Toronto.

Chattopadhyay, Saumen, and Arindam Das-Gupta. 2002a. The Compliance Cost of the Personal Income Tax and its Determinants. New Delhi: National Institute of Public Finance and Policy.

———. 2002b. The Income Tax Compliance Cost of Indian Corporations. New Delhi: National Institute of Public Finance and Policy.

Cheung, D., S. Chan, M. Ariff, and A. Loh. 1999. “Compliance Costs of Corporate Taxation in Hong Kong.” In *Taxation & Compliance Costs in Asia Pacific Economies*, edited by Mohamed Ariff and Jeff Pope, 175-204. Sintok: Universiti Utara Malaysia Press.

Chittenden, Francis, Saleema Kauser, and Panikkos Poutziouris. 2005. “PAYE-NIC Compliance Costs : Empirical Evidence from the UK SME Economy.” *International Small Business Journal* no. 23: 635.

CIA. 2011. *The World Factbook-Indonesia 2011* [cited 1 April 2011 2011]. Available from <https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>.

Coolidge, Jacqueline. 2010. Tax Compliance Cost Surveys: Using Data to Design Targeted Reforms. In *Investment Climate In Practice: Investment Climate Advisory Services*, World Bank.

Cordova-Novion, C, and C De Young. 2001. “The OECD/Public Management Service Multi Country Business Survey-Benchmarking Regulatory and Administrative Business Environments in Small and Medium Sized Enterprises.” In *Tax Compliance Costs: A Festschrifts for Cedric Sandford*, edited by C Evans, J Pope and J Hasseldine. Sydney: Prospect.

CPA Australia. 2003. *Small Business Survey Program: Compliance Burden*. Melbourne: CPA Australia.

DeLuca, Donald, Scott Stilmar, John Guyton, Wu-Lang Lee, and John O'Hare. 2007. "Aggregate Estimates of Small Business Taxpayer Compliance Burden." *IRS Research Bulletin* no. 1500.

Directorate General of Taxes. 2008. *Income Tax Law*. Government of Indonesia.

———. 2009. *Value-added Tax and Sales Tax on Luxurious Goods Law*. Government of Indonesia.

———. 2010. *The Formation of Modern Tax Offices and Tax Regional Offices 2010* [cited 5 August 2010]. Available from <http://www.pajak.go.id/dmdocuments/Pembentukan%207%28tujuh%29%20Kanwil%20DJP%20Modern%20dan%20Pembentukan%20KPP%20Pratama%20serta%20KP2KP%20di%2010%28sepuluh%29%20Kanwil%20DJP.pdf>.

———. 2012. *Mbah Bejo Pun Bayar Pajak 2012* [cited 28 February 2012]. Available from <http://www.pajak.go.id/content/mbah-bejo-pun-bayar-pajak>.

Erard, Brian. 1997. *The Income Tax Compliance Burden on Canadian Big Business*. Ottawa: Technical Committee on Business Taxation.

EU Project on Corporate Tax Compliance Costs. 2009. *Expert Study on the Corporate Tax Compliance Costs for Businesses Going EU Cross Border – Comparison Under the Current Regime, the CCTB and the CCCTB Regime*.

Evans, C, B Tran-Nam, and B Jordan. 2002. "Assessing the Potential Compliance Costs/Benefits of the Tax Value Method." *Australian Tax Forum* no. 17 (1):33-58.

Evans, Chris. 2003. *The Operating Costs of Taxing the Capital Gains of Individuals: A Comparative Study of Australia and the UK, with Particular Reference to the Compliance Costs of Certain Tax Design Features*, Faculty of Law, University of New South Wales, Sydney.

———. 2008. "Taxation Compliance and Administrative Costs: An Overview." In *Tax Compliance Costs for Companies in an Enlarged European Community*, edited by Michael Lang, Christine Obermair, Josef Schuch, Claus Staringer and Patrick Weninger. Kluwer Law International.

Evans, Chris, Katherine Ritchie, Binh Tran-Nam, and Mike Walpole. 1998. "Taxation Compliance Costs: Some Recent Empirical Work and International Comparisons." *Australian Tax Forum* no. 14.

Gillis, Malcolm. 1985. "Micro and Macroeconomics of Tax Reform." *Journal of Development Economics* no. 19 (1985):221-254.

Godwin, Michael. 1995. "The Compliance Costs of the United Kingdom Tax System." In *Tax Compliance Costs Measurement and Policy*, edited by Cedric Sandford, 73-100. Bath: Fiscal Publications.

Guyton, John L., John F. O'Hare, Michael P. Stavrianos, and Eric J. Toder. 2003. "Estimating the Compliance Cost of the U.S. Individual Income Tax." *National Tax Journal* no. 56 (3):673.

Hasseldine, J, and A Hansford. 2002. "The Compliance Burden of the VAT: Further Evidence from the UK." *Australian Tax Forum* no. 17 (4):187-191.

Heij, Gitte. 1993. *Tax Administration and Compliance in Indonesia*. Vol. II, *Asia Research Centre Policy Paper 9* Perth: Murdoch University.

Henefah, M., M. Ariff, and J. Kasipillai. 2001. "Compliance Cost of Small and Medium Enterprises in Malaysia." In *Taxation & Compliance Costs in Asia Pacific Economies*, edited by Mohamed Ariff and Jeff Pope, 109-127. Sintok: Universiti Utara Malaysia Press.

Jrbashyan, Tigran, and Davit Harutyunyan. 2006. *Estimation of Transaction Costs during Tax Collection Process*. Armenian International Policy Research Group.

Klun, Maja. 2004a. "Compliance Costs for Personal Income Tax in a Transition Country: The Case of Slovenia." *Fiscal Studies* no. 25 (1).

———. 2004b. "Taxation Compliance Costs for Companies in Slovenia." *Economic and Business Review for Central and South - Eastern Europe* no. 6 (4):325.

Lobo, Delgado, J M. Salinas-Jiminez, and J Sanz Sanz. 2001. "Hidden Tax Burden of the Personal Income Tax: Evidence from Recent Tax Reform in Spain." *Australian Tax Forum* no. 16:463-482.

Loh, Alfred, M. Ariff, Z Ismail, Shamsheer M, and M Ali. 1995. "Compliance Costs of Corporate Income Taxation in Malaysia." In *Taxation & Compliance Costs in Asia Pacific Economies*, edited by Mohamed Ariff and Jeff Pope, 89-107. Sintok: Universiti Utara Malaysia Press.

Mathieua, Laurence, Catherine Waddams Pricea, and Francis Antwib. 2010. "The Distribution of UK Personal Income Tax Compliance Costs." *Applied Economics* no. 42,:351-368.

Merrill, Peter, Qiang Ma, Fritz Scheuren, Ali Mustaq, Joel Slemrod, and Brian Erard. 2006. *Retail Sales Tax Compliance Costs: A National Estimate*. National Economic Consulting.

Moody, J. Scott, Wandy P. Warcholik, and Scott A. Hodge. 2005. *The Rising Cost of Complying with the Federal Income Tax*. Tax Foundation.

- Plamondon, Robert E., and David Zussman. 1998. "The Compliance Costs of Canada's Major Tax Systems and the Impact of Single Administration." *Canadian Tax Journal* no. 46 (4):761-785.
- Pope, J., D.L. Chen, and R. Fayle. 1993. *The Compliance Costs of Employment-Related Taxation in Australia : Employers' Pay-As-You-Earn, Fringe Benefits Tax, Prescribed Payments System and Payroll Tax 1989/1990*. Sydney: Australian Tax Research Foundation.
- Pope, J., R. Fayle, and D. L. Chen. 1991. *The Compliance Costs of Public Companies' Income Taxation in Australia, 1986/87*. Sydney: Australian Tax Research Foundation.
- Pope, Jeff. 1993. *The Compliance Costs of Major Commonwealth Taxes in Australia*, School of Economics and Finance, Curtin University, Perth.
- . 2003a. "Research Methodology for Estimating the Compliance Costs of the Goods and Services Tax in Australia." In *Contemporary Issues in Taxation Research* edited by Andy Lymer and David Salter, 69-88. Hants: Ashgate Publishing Limited.
- . 2003b. "Tax Compliance Costs." In *Taxation: Interdisciplinary Approach to Research*, edited by Margaret Lamb, Andrew Lymer, Judith Freedman and Simon James. Oxford: Oxford University Press.
- Pope, Jeff, R. Fayle, and D.L. Chen. 1993. *The Compliance Cost of Wholesale Sales Tax in Australia*. Sydney: Australian Tax Research Foundation.
- Pope, Jeff, and Richard Fayle. 1991. "The Compliance Costs of Public Companies' Income Taxation in Australia 1986/87: Empirical Results." *Australian Tax Forum* no. 8 (4):485.
- Pope, Jeff, Richard Fayle, and D. L. Chen. 1994. *The Compliance Costs of Companies' Income Taxation in Australia*. Sydney: Australian Tax Research Foundation.
- Pope, Jeff, Richard Fayle, and M. Duncanson. 1990. *The Compliance Costs of Personal Income Taxation in Australia 1986/87*. Sydney: Australian Tax Research Foundation.
- Pope, Jeff, and Nthathi Rametse. 2002. "Small Business Start-Up Compliance Cost of the Goods and Services Tax: Estimates and Lessons From Tax Reform." *Journal of Australian Taxation* no. 12 (5(3)).
- Prasetyo, Adinur. 2010. *Transaction Cost in Tax Computation 2003* [cited 18 September 2010]. Available from <http://jurnalskripsitesis.wordpress.com/2008/03/22/biaya-transaksi-dalam-penghitungan-pajak/>.
- Reekmans, Catherine, and Gudrun Simoens. 2009. *How High Are the Tax Compliance Costs for Belgian SMEs*, Faculty of Economics and Business, Ghent University.
- Sandford, Cedric. 1995. *Tax Compliance Costs Measurement and Policy*. Bath: Fiscal Publications.

Sandford, Cedric, M. Godwin, and Peter Hardwick. 1989. *Administrative and Compliance Costs of Taxation*. Bath: Fiscal Publications.

Sandford, Cedric, and John Hasseldine. 1992. *The Compliance Costs of Business Taxes in New Zealand*. Wellington: Institute of Policy Studies.

Skatteverket. 2006. Compliance Costs of Value Added Tax in Sweden.

Slemrod, Joel, and Varsha Venkatesh. 2002. The Income Tax Compliance Cost of Large and Mid-Size Businesses. Michigan: Ross School of Business.

Strumpel, Burkhard. 1966. "The Disguised Tax Burden Compliance Costs of German Businessmen and Professional." *National Tax Journal* no. 19 (1):70.

The Investment Climate Advisory Service. 2007. South Africa-Tax Compliance Burden for Small Businesses: A Survey of Tax Practitioners. FIAS.

———. 2009. The Costs of Tax Compliance in Ukraine. Kyiv: World Bank.

Tran-Nam, B, and J Glover. 2002. "Estimating the Transitional Compliance Costs of the GST in Australia: a case Study Approach." *Australian Tax Forum* no. 17 (4):499-536.

Tran-Nam, Binh, Chris Evans, Michael Walpole, and Katherine Ritchie. 2000. "Tax compliance costs: Research methodology and empirical evidence from Australia." *National Tax Journal* no. 53 (2):229.

Wallschutzky, Ian Gregory, and Brian Gibson. 1993. *Small Business Cost of Tax Compliance*. Newcastle: Dept. of Commerce, University of Newcastle.

World Bank. 2011. *Indonesia 2011* [cited 20 March 2011]. Available from <http://data.worldbank.org/country/indonesia>.



## Appendix 1: Summary of Compliance Costs Studies From 2000 in Chronological Order

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
1	2002 2001	Slemrod Venkatesh United States	Income Tax Large and Mid-Size Businesses	1. Mail survey 2. 2,500 3. 225 4. 9	<ul style="list-style-type: none"> <li>• Average CC increase with increasing size of business</li> <li>• CC is regressive in terms of size</li> <li>• Proportion ranking: internal personnel, external assistance, internal non-personnel</li> <li>• Average CC is \$134,954</li> <li>• Total CC national is \$29.9m billion, 25% for state taxes and 75% for federal taxes</li> <li>• CC is 28%-29% revenue</li> </ul>
2	2002 2002	Evans, Tran-Nam, Jordan Australia	Tax Value Method Business taxpayers	1. Case study 2. n/a 3. 40 4. n/a	<ul style="list-style-type: none"> <li>• Transitional costs for business taxpayers in average: large \$757,859, medium \$4,192, small \$8,467</li> <li>• Psychological costs not possible to quantify</li> <li>• Transactional costs for tax practitioners in average: large \$821,190, medium \$707,487, small \$50,333</li> <li>• Majority of businesses and practitioners say no recurrent costs</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
3	2002 2000	Hasseldine and Hansford U.K.	VAT Businesses	1. Mail survey 2. 6,232 3. 1,449 4. 23	<ul style="list-style-type: none"> <li>Increased CC are strongly linked to business size</li> <li>Three industries (manufacturing, dealing, and service) face lower CC compared to others</li> <li>Businesses with computer face higher CC than ones without</li> </ul>
4	2002 2000-2001	Chattopadhyay and Das-Gupta India	Income tax Companies	1. Mail survey and direct delivery 2. 3700 and 200 3. 23 and 28 4. 1.15%	<ul style="list-style-type: none"> <li>Gross CC between 5.6 and 14.5% of tax revenue</li> <li>Tax deductibility benefits and cash flow benefits range from minus 0.7% and plus 0.6% of corporation tax revenue</li> <li>Gross and net CC are regressive</li> <li>Tax ambiguity, complexity, and instability are major contributions of CC</li> </ul>
5	2002 2000-2001	Chattopadhyay and Das-Gupta India	Income tax Individuals	1. Mail survey 2. 5,435 3. 128 4. 2.17%	<ul style="list-style-type: none"> <li>CC 49% of tax revenue or 0.8% of GDP</li> <li>CC are regressive</li> <li>Incidents and amount of bribe are high</li> <li>Harassment is serious problem in India</li> <li>Psychic costs are 20% addition to CC</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
6	2003 2002	Evans UK and Australia	Capital gains tax Individuals	<ol style="list-style-type: none"> <li>1. Mail survey (a) Australian and (b) UK</li> <li>2. (a) 321 (b) 320</li> <li>3. (a) 94 (b) 89</li> <li>4. (a) 29% (b) 28%</li> </ol>	<ul style="list-style-type: none"> <li>• CC are high as regard to the amount of tax, revenue collected, CC in the past, and CC of other taxes</li> <li>• CC are higher than other taxes because of complexity, frequent legislative change, record-keeping requirements, poor cost base issues, valuation issues, poor legislative drafting</li> <li>• CC are regressive</li> <li>• Because of frequent changes, CC has not fallen over time</li> </ul>
7	2003	CPA Australia Australia	Business taxes Small businesses	<ol style="list-style-type: none"> <li>1. Interview with a. Small businesses, b. CPA</li> <li>2. n/a</li> <li>3. 701 and 105</li> <li>4. n/a</li> </ol>	<ul style="list-style-type: none"> <li>• Annual income tax return is prepared by: external accountant 79%, proprietor 15%, staff 12%</li> <li>• Other tax returns prepared by external accountant 32%, proprietor 23%, staff 23%</li> <li>• In past two years, 30% of respondents and 89% of consultants say the costs of compliance of taxes increase</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
8	2003 2000-2001	Guyton, O'Hare et al. United States	Income tax Individuals (wage & Investment (WI) and Self-employed (SE))	<ol style="list-style-type: none"> <li>1. Interview</li> <li>2. n/a</li> <li>3. 6,366 WI and 9,081 SE</li> <li>4. 60.5% WI and 56.4% SE</li> </ol>	<ul style="list-style-type: none"> <li>• National CC is 3.21 billion hour and \$18.8 billion</li> <li>• Average CC for SE taxpayer is greater than WI taxpayer</li> <li>• Time spent rank: software-tax professionals-self prepared returns</li> <li>• Money spent rank: professionals-software-self prepared</li> <li>• If time spent is monetized, total CC is \$67-99 billion</li> </ul>
9	2004 2000	Klun Slovenia	Income tax Individuals	<ol style="list-style-type: none"> <li>1. 50% mail, 50% visit</li> <li>2. 350</li> <li>3. 222</li> <li>4. 64</li> </ol>	<ul style="list-style-type: none"> <li>• Average time spent 1.7 hours</li> <li>• Costs vs. revenue ratio: 2.5%</li> <li>• Time cost is 89.6% of CC</li> <li>• CC as % of income is regressive</li> </ul>
10	2004 2002	Klun Slovenia	Income tax Companies	<ol style="list-style-type: none"> <li>1. Mail survey &amp; interview</li> <li>2. 200</li> <li>3. 126</li> <li>4. 64</li> </ol>	<ul style="list-style-type: none"> <li>• Average CC per company is 1,507 thousand SIT</li> <li>• CC is 4.22% of tax revenue</li> <li>• CC is 1% of GDP</li> <li>• Structure of costs: labour 57.8%, consultation 26.1%, others 16.1%</li> <li>• Structure of costs based on tax: VAT 66.9%, CIT 23%, deducted tax 10%</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
11	2004 2001/2002	Blazić Croatia	All taxes Small businesses	<ol style="list-style-type: none"> <li>1. Interview</li> <li>2. n/a</li> <li>3. 257</li> <li>4. n/a</li> </ol>	<ul style="list-style-type: none"> <li>• CC is 0.8% of GDP</li> <li>• CC is almost 100% of tax revenue</li> <li>• The biggest proportion of CC is VAT</li> <li>• Psychological cost not significant</li> <li>• CC is regressive in terms of number of employees and turnover</li> <li>• Time of owner is the biggest contributor of CC</li> </ul>
12	2004 2003	Alexander, Bell et al. New Zealand	All compliance costs Small business	<ol style="list-style-type: none"> <li>1. Direct measurement through 13-week diary</li> <li>2. 70</li> <li>3. 25</li> <li>4. 36</li> </ol>	<ul style="list-style-type: none"> <li>• The most CC relate to taxes</li> <li>• Most CC do not benefit the businesses</li> <li>• Preparing GST and PAYE returns are dominant in taxes-related CC</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
13	2005 2003	Brunton New Zealand	All taxes Small and medium enterprises	<ol style="list-style-type: none"> <li>1. Mail survey</li> <li>2. 5620</li> <li>3. 1,907</li> <li>4. 44-45</li> </ol>	<ul style="list-style-type: none"> <li>• Internal costs, average 76.7 hours (56.3 owners, 18.4 paid employees, 3.4 unpaid helpers)</li> <li>• Internal hours based on taxes: GST 44.2, Income tax 29.2, PAYE 27.5, FBT 12.8 hours</li> <li>• Monetized time spent, average \$1,224</li> <li>• Monetized time spent based on taxes: GST \$1,852, PAYE \$937, FBT \$416</li> <li>• External costs: 80% use it</li> <li>• Mean external costs: \$1,465</li> <li>• External costs based on taxes: GST \$480, Income tax \$1,202, PAYE \$141, FB \$149</li> <li>• Combined internal and external, average \$4,024</li> <li>• Psychological: 51% less than moderate stress, 24% moderate, 23% more than moderate stress</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
14	2005 2004	J. Scott Moody Wendy P. Warcholik, Scott A. Hodge	Federal taxes Individuals, businesses, non- profits	1. Estimation based on IRS data 2. n/a 3. n/a 4. n/a	<ul style="list-style-type: none"> <li>Total CC=\$265.1 billion</li> <li>Costs for businesses \$148 billion (56%), individuals \$111 billion (42%), non-profits \$7 billion (2.5%)</li> <li>CC is regressive</li> <li>CC is 22% of tax revenue</li> <li>The states with highest CC per capita: Wyoming, Delaware, and Colorado</li> <li>The lowest: Mississippi, West Virginia, Tennessee</li> </ul>
15	2005	Chittenden, Kauser et al. UK	PAYE-NIC taxes Small businesses	1. Mail survey 2. 10,000 3. 431 4. 4.31	<ul style="list-style-type: none"> <li>CC is regressive in terms of the number of employees</li> <li>The bigger the company, the more costs relate to internal staff</li> <li>CC per employee range from £335 (smallest companies to £21 (biggest companies)</li> <li>Psychological costs range from £458 to £18</li> <li>Opportunity costs range from £402 to £17</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
16	2006 2003	Peter Merrill Qiang Ma Fritz Scheuren Ali Mustaq Joel Slemrod Brian Erard United States	Retail taxes All taxpayers	1. Mail survey 2. 13,872 3. 796 4. 8	<ul style="list-style-type: none"> <li>Gross CC=3.09% of national sales tax</li> <li>Gross CC=0.19% of taxable sales</li> <li>Average gross CC for small businesses is \$2,388; medium \$5,279, and large \$118,233</li> <li>CC for small businesses is six times larger than larger businesses in term of tax collected and taxable sales</li> <li>Benefits for businesses are vendor discount and net float</li> <li>Vendor discount is 0.5% of sales</li> <li>Net float is 0.1% of sales</li> <li>Overall vendor discount + net float is 19% of gross CC</li> <li>Top three costs are preparing returns, documentation, training</li> </ul>



No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
17	2006 2004	DeLuca, Stilmar et al. United States	All taxes Small businesses	1. Mail survey and interview 2. 20,000 3. 7,243 4. 36.2	<ul style="list-style-type: none"> <li>Total time spent 1,709-1,944 million hours, average 236-255 hour per company</li> <li>Total money spent \$14,976-16,411 million, average \$2,068-2,266</li> <li>Time spent rank: record keeping, paid professionals, tax planning time</li> <li>Money spent rank: paid professionals, software, others</li> <li>Money spent per employee: 349-383 hours</li> <li>Monetized time and money spent: \$1,346-1,458 per company</li> <li>As % of revenue: money spent 0.2-0.3%, money + time 0.9-1%</li> <li>As % of total asset: money spent 0.4-0.5%, money + time 1.6-1.8%</li> <li>As % of tax receipt: money spent 0.2-0.3%, money + time 0.9-1%</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
18	2006 2005	Skatteverket Sweden	VAT companies	1. Mail survey and interview 2. 5,463 3. 2,077 4. 43	<ul style="list-style-type: none"> <li>National CC is 6.3 SEK thousand millions; 73% of 0-4 employees businesses and 4% of more than 500 employees businesses</li> <li>Average CC 9,516 SEK</li> <li>Structure of internal CC: preparation 27%, filling returns 62%, finishing 12%</li> <li>CC is 3% of VAT revenue</li> </ul>
19	2006 2003	Jrbshyan and Harutyunyan Armenia	All taxes Companies	1. Interview 2. 1300 3. 328 4. 25.2	<ul style="list-style-type: none"> <li>CC is regressive in terms of number of employees and sales volume</li> <li>Industry sector account the biggest average CC compared to other sectors</li> <li>Information gathering costs and measurement costs account for the biggest components of CC</li> <li>CC is 1.1% of GDP</li> <li>CC is 11.5% of tax revenue</li> </ul>
20	2007 2006	The Investment Climate Advisory Service South Africa	All taxes Small businesses	1. Electronic survey 2. 27,747 3. 3,429 4. 15.75	<ul style="list-style-type: none"> <li>Recurring burden (preparing returns) is larger than once-off burdens (audits, inspections, objections)</li> <li>Basic service of tax accounting costs R12,185 in average per year</li> <li>Total service costs in average R36,343 per year</li> <li>Most burdensome tax is provisional tax</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
21	2008 2007	Charron, Chow et al. Canada	All taxes companies	<ol style="list-style-type: none"> <li>1. Internet mail questionnaires</li> <li>2. n/a</li> <li>3. 6,939</li> <li>4. n/a</li> </ol>	<ul style="list-style-type: none"> <li>• Global CC amounts to \$12.6 billion per year; of that 90% is on small and medium companies</li> <li>• Average CC per company is \$18,321/year</li> <li>• CC is regressive in terms of number of employees</li> <li>• In terms of time and money, the most consuming is payroll taxes, followed by income tax and GST</li> <li>• CC is 2.7% of tax revenue</li> <li>• The biggest contributor of CC is the amount of paperwork</li> </ul>
22	2009 n/a	Reekmans and Simoens Belgium	All taxes Small businesses	<ol style="list-style-type: none"> <li>1. internet mail questionnaires</li> <li>2. 10,300</li> <li>3. 151</li> <li>4. 1.87</li> </ol>	<ul style="list-style-type: none"> <li>• VAT, social security tax, and income tax account for 82% of CC; VAT alone is 50% Of CC</li> <li>• Average CC is £17,457</li> <li>• Total CC is 5.07% of value added</li> <li>• CC is regressive in terms of the number of employees</li> <li>• Based on sectors, hotels and restaurants have highest CC per company; construction is the lowest</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
23	2009 2007	Investment Climate Advisory Services Ukraine	All taxes Companies Proprietors	<p>COMPANIES:</p> <ol style="list-style-type: none"> <li>1. Interview</li> <li>2. 8,000</li> <li>3. 2.082</li> <li>4. 26</li> </ol> <p>PROPRIETORS:</p> <ol style="list-style-type: none"> <li>1. Interview</li> <li>2. 2,678</li> <li>3. 1,004</li> <li>4. 43</li> </ol>	<p>COMPANIES:</p> <ul style="list-style-type: none"> <li>• Average time required per year is 1,335 hours</li> <li>• Largest component of CC is staff time</li> <li>• Costs ranking: tax accounting, visit to tax office, inspections</li> <li>• Taxes ranking: VAT, profit tax, pension funds</li> <li>• Average CC is \$3,769 per company</li> <li>• CC is regressive in terms of turnover</li> <li>• Total CC is 1% of GDP</li> </ul> <p>PROPRIETORS:</p> <ul style="list-style-type: none"> <li>• Average time used: 155 hour</li> <li>• Large component is owners' time</li> <li>• Costs ranking: tax accounting, visit, inspections</li> <li>• Tax ranking: personal income tax, fixed taxpayers</li> <li>• Average CC is \$438</li> <li>• CC is regressive in terms of turnover</li> </ul>

No	Year of publication Year reviewed	Author(s) Country Studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
24	2009	EU Project European countries	Gross border taxes under two different three regimes (current, CCTB and CCTB) Medium and Large companies	1. Expert calculation on different scenarios in 6 countries 2. n/a 3. n/a 4. n/a	<ul style="list-style-type: none"> <li>For large companies, CCTB could save 9.84% time and 2.64% money in CC. CCTB could save 69.5% time and 62.35% money</li> <li>For medium companies, CCTB could save 10.74% time and 0.54% money. CCTB could save 71.12% time and 0.18% money</li> </ul>
25	2010	The World Bank Group Yemen	All taxes Small businesses	n/a	<ul style="list-style-type: none"> <li>Internal report, not published</li> </ul>
26	2010	The World Bank Group Peru	All taxes Small businesses	n/a	<ul style="list-style-type: none"> <li>Not yet published</li> </ul>
27	2011 2000	Mathieua, Pricea et al. UK	All taxes Individuals	1. Mail survey 2. 1,000 3. 320 4. 32	<ul style="list-style-type: none"> <li>Average time is 4.5 hours a year</li> <li>More than 27% use tax consultants</li> <li>Total CC is £285</li> <li>Positive correlation of CC and income, education, and difficulty in attending to tax affairs</li> <li>Age and marital have no effect on CC</li> </ul>

Note: CC=Compliance Costs

n/a=not available

Sources: various (Slemrod and Venkatesh 2002; EU Project on Corporate Tax Compliance Costs 2009; Charron, Chow, and Halbesma 2008; DeLuca et al. 2007; Merrill et al. 2006; Alexander, Bell, and Knowles 2004; Lobo, M. Salinas-Jimenez, and Sanz Sanz 2001; Pope and Rametse 2002; Evans, Tran-Nam, and Jordan 2002; Hasseldine and Hansford 2002; Tran-Nam and Glover 2002; Cordova-Novion and De Young 2001; Evans 2003; CPA Australia 2003; Guyton et al. 2003; Klun 2004b; Blažic 2004; Brunton 2005; Chittenden, Kauser, and Poutziouris 2005; Austan and Jonathan 1999; Skatteverket 2006; Jrbashyan and Harutyunyan 2006; The Investment Climate Advisory Service 2007; Reekmans and Simoens 2009; The Investment Climate Advisory Service 2009; Coolidge 2010; Mathieua, Pricea, and Antwib 2010; Moody, Warcholik, and Hodge 2005; Chattopadhyay and Das-Gupta 2002b, 2002a)

## Appendix 2 Questionnaire

Note: this is the English version of the questionnaire. The actual version that was distributed is written in Bahasa, the official language in Indonesia.



**Curtin University**

SCHOOL OF ECONOMICS AND FINANCE

CURTIN BUSINESS SCHOOL

GPO Box U1987 Perth, Western Australia 6845

Phone: +61 8 9266 7796 or +61 8 9266 7756

Fax No: +61 8 9266 3026

### A SURVEY ON THE COMPLIANCE COSTS OF LARGE CORPORATE TAXPAYERS IN INDONESIA

Dear Taxpayer,

The School of Economics and Finance is a part of Curtin Business School, Curtin University, Western Australia. This year, as a part of its PhD program requirements, we are conducting a survey on tax compliance costs in Indonesia.

This research aims to investigate the magnitude of the costs of Indonesian large corporate taxpayers to fulfil their tax obligations, beside the tax itself. Through the research, the sacrifice made by the Indonesian economy to comply with tax regulations will be known. Moreover, the results will show the relative costs of Indonesian taxpayers compared to that of other countries. The definition of a large company is a company whose turnover is more than Rp3 billion a year. Your company has been selected as one of the samples.

To achieve those objectives, a significant number of completed questionnaires are needed. Thereby, we would like to request you to complete the questionnaire attached. The approximate time needed is half an hour. You are not required to reveal the name and tax number of your company, and we will not be able to identify your company based on the completion of the questionnaire. We guarantee that we will not send the information we gather to the Indonesian government/tax administration, except for the general recommendations based on the results of taxpayers as a whole.

This survey has been approved by Curtin University Human Research Ethics Committee with the approval letter number E&F/002/2011\*.

When you have completed the questionnaire, please enclose it into the envelope provided and mail it to the nearest post office. No stamp is needed.

We would like to thank you and appreciate your willingness to complete the survey.

Sincerely yours,

Budi Susila  
Researcher, PhD Program

Professor Jeff Pope  
Research Supervisor, School of Economics and Finance

\* If needed, verification of approval can be obtained either by writing to the Curtin University Human Research Ethics Committee, c/- Office of Research and Development, Curtin University of Technology, GPO Box U1987, Perth, 6845 or by telephoning 9266 2784.

---

This questionnaire has three parts: general information about your company, compliance costs, and others. Please cross (x) on  or fill in the blank space provided.

---

## 6 General Information

---

### 6.1 In what sector does your company mainly operate?

- Retail and wholesale trade
- Manufacturing (foods, textile, woods, paper, fertilizer, cement, metal, etc.)
- Financial service
- Transportation, warehouse, and communication
- Construction
- Real estate, rent
- Mining and extraction
- Others

### 6.2 Where is your company's main activity located?

- Java
- Sumatera
- Sulawesi
- Others

### 6.3 How long has your company operated?

- More than 10 years
- 5-10 years
- 1-5 years
- Less than 1 year

### 6.4 How long has your company been registered in current tax office?

- More than 10 years
- 5-10 years
- 1-5 years
- Less than 1 year

### 6.5 How many employees does your company have?

- Up to 100 employees
- 100-500 employees
- 501-1,000 employees
- 1,001-5,000 employees
- More than 5,000 employees

### 6.6 What is your company's turnover in 2010?

- Less than Rp3 billions
- Rp3 billions-Rp10 billions
- Rp10 billions-Rp50 billions
- Rp50 billions-100 billions
- More than Rp100 billions

### 6.7 What are the total assets of your company?

- Less than Rp3 billions
- Rp3 billions-Rp10 billions
- Rp10 billions-Rp50 billions
- Rp50 billions-100 billions
- More than Rp100 billions



## 7 Compliance Costs (All Questions Relate To Year 2010)

### 7.1 How many full-time employees are specially assigned to handle taxation in the company?

Answer:  employees

### 7.2 How much are your routine compliance costs every month?

Compliance costs are costs paid by taxpayers to fulfil tax obligations, besides the tax itself. Routine costs include the costs that a company pays regardless of its activities to comply with tax regulations. Examples of these costs are monthly costs for tax division's staff, stationery, payments for routine tax agent or tax lawyer, and the like.

ROUTINE COSTS	Amount/month (million)
Salary of staff/managers in tax division	Rp.
Others (stationery, transportation, etc.)	Rp.
Tax consultants/lawyers	Rp.
GRAND TOTAL	Rp.

### 7.3 The costs above are for all type of taxes. Please estimate the percentage for each type of tax

TYPE OF TAXES	Percentage (%)
Corporate Income Tax	
Value Added Tax (VAT)	
Withholding taxes (PPh 21,22,23,26)	
Total	100%

### 7.4 Please split these costs into direct and indirect costs.

Based on the purpose of the payment, compliance costs can be divided into two: direct and indirect costs. Direct costs are expenditures that are mainly aimed to technically calculate, disburse, and report tax obligations. Indirect costs are expenditures to obtain more understanding on tax matters and to save tax payment (in legal ways), such as costs for tax seminars and tax in-house training.

ROUTINE COSTS	Direct (%)	Indirect (%)	Total (%)
Salary of staff/managers in tax division			100%
Others (stationery, transportation, etc.)			100%
Tax consultants/lawyers			100%
GRAND TOTAL			100%

**7.5 In general, how much time is used by persons mentioned below to handle taxation matters? Such activities include corporate meetings discussing taxation, or supervising tax staff.**

POSITION	Time used per month (hour)
CEO/President Director	
Finance Director	
Accounting Manager	
Other managers	

**7.6 If those times are calculated in terms of money, how much is the equivalent per month?**

Answer: Rp  million/month

**7.7 How much are non-routine costs (additional costs) in your company to prepare and submit the last annual Corporate Tax Income returns?**

**Note: do not include routine costs above**

NON-ROUTINE COSTS	Amount
Salary of staff/managers in tax division	Rp
Others (stationery, transportation, etc.)	Rp.
Tax consultants/lawyers	Rp.
GRAND TOTAL	Rp.

**7.8 In 2010, was your company audited?**

Answer:  yes, \_\_\_\_\_ times → please continue to question 7.9

no → please continue to question 7.10

**7.9 If the answer is 'yes', how much are the additional costs?**

AUDIT COSTS	Amount
Salary of staff/managers in tax division	Rp
Others (stationery, transportation, etc.)	Rp.
Tax consultants/lawyers	Rp.
GRAND TOTAL	Rp.

**7.10 In 2010, did your company submit a tax objection?  
(Regardless of tax type or tax year)**

Answer:  yes, \_\_\_\_\_ times → please continue to question 7.11  
 no → please continue to question 7.12

**7.11 If the answer is 'yes', how much are the additional costs?**

OBJECTION COSTS	Amount
Salary of staff/managers in tax division	Rp.
Others (stationery, transportation, etc.)	Rp.
Tax consultants/lawyers	Rp.
GRAND TOTAL	Rp.

**7.12 In 2010, did your company submit a tax appeal?  
(Regardless of tax type or tax year)**

Answer:  yes, \_\_\_\_\_ times → please continue to question 7.13  
 no → please continue to question 8

**7.13 If the answer is 'yes', how much are the additional costs?**

APPEAL COSTS	Amount
Salary of staff/managers in tax division	Rp.
Others (stationery, transportation, etc.)	Rp.
Tax consultants/lawyers	Rp.
GRAND TOTAL	Rp.

**8 Others**

The following statements relate to current condition compared to the condition five years ago; or the condition before new organizational structure in the Indonesian Tax Office; or condition before your company was assigned to the current tax office. Please cross (x) in desired box

### 8.1 Do you agree with the following statements?

<b>Statements</b>					
	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<b>Tax Administration</b>					
In general, tax administration is now better	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information/computer system in the tax office makes it easier to comply with tax regulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
It is now easier to obtain tax ruling clarification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax objection/appeal procedure is now easier	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax laws/regulations are now simpler	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Tax Office</b>					
Tax return submission is now simpler	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tax officers are now more competent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Service in Tax Office is now better	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Audit process is now simpler	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I am satisfied with the service provided by current tax office	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Account Representatives (ARs)</b>					
AR is helpful	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
AR is knowledgeable on tax laws/regulations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The existence of AR can reduce company's spending	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The existence of AR increases the costs because more documents or explanations are needed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The existence of AR does not affect the compliance costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The existence of AR can reduce pressure on my company	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For my company, the AR is not needed	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**8.2 If the AR can save your company's compliance costs, how much is the reduction per month?**

Answer: Rp  million/month

**8.3 If the AR increases your company's compliance costs, how much is the increase per month?**

Answer: Rp  million/month

**8.4 If in 2010, your company used tax consultants/agents, what is/are the reasons for hiring them? (You can choose more than one answer)**

- because it is difficult to obtain clarification from the tax office
- because the benefit exceeds the costs
- because it is the policy from the parent company
- other, please specify \_\_\_\_\_

**8.5 How much did you pay taxes in 2010?**

Corporate Income Tax

- Rp0 –Rp100 millions     Rp100mil-Rp500 mil     Rp500 mil-Rp1 B
- Rp1 B-Rp10 B     Rp10B-Rp50 B     more than Rp50 B

Value Added Tax (PPN):

- Rp0 –Rp100 millions     Rp100mil-Rp500 mil     Rp500 mil-Rp1 B
- Rp1 B-Rp10 B     Rp10B-Rp50 B     more than Rp50 B

Withholding Taxes (PPh 21, 22, 23, 26 etc.):

- Rp0 –Rp100 millions     Rp100mil-Rp500 mil     Rp500 mil-Rp1 B
- Rp1 B-Rp10 B     Rp10B-Rp50 B     more than Rp50 B

**8.6 In your opinion, compared to other companies in the same industry, the compliance costs of your company are:**

- very low
- low
- relatively the same
- high
- very high

## 9. Further Information

---

Are you willing to be contacted later for further questions that may arise from this questionnaire?

Note: your response will be treated with strict confidence, and solely for the purpose of this research.

Answer:  no

yes → please provide your contact details:

Name: \_\_\_\_\_

Telephone number: \_\_\_\_\_

**This is the end of the survey. Please enclose your completed questionnaire in provided envelope and mail it to the nearest post office. No postage necessary. Thank you very much for your cooperation.**