

Curtin Law School

**The Role of Effective Tax Administration in Encouraging Greater
Compliance with Taxation Laws in Indonesia**

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**This thesis is presented for the Degree of
Doctor of Philosophy
of
Curtin University**

August 2018

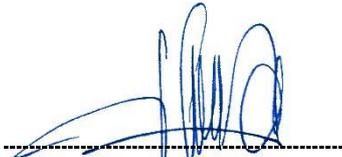
DECLARATION

To the best of my knowledge and belief, this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

The research presented and reported in this thesis was conducted in accordance with the National Health and Medical Research Council National Statement on Ethical Conduct in Human Research (2007) – updated March 2014. The proposed research study received human research ethics approval from the Curtin University Human Research Ethics Committee (EC00262), Approval Number #RDBS-08-15.

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ABSTRACT

This thesis reports a study that investigated the ongoing tax administration reform taken place in Indonesia between 2002 and 2007 for the first part of the study and between 2007 and 2015 for the second part of the study. Taxation is without a doubt essential in supporting Indonesia's strive in development. In particular, the tax administration handled by the Directorate General of Taxes (DGT) is of greater importance. To empower this organisation, a series of reform have taken place. This study identified two significant reforms: The reform taken place in 1983 that put forward the self-assessment system; and the subsequent reform that started in 2001 that established the basis of the current administration system. Despite these efforts, the DGT seems to be unable to meet its most important target: tax revenue collection. This thesis focuses on the administration side of the tax system and examines some of the possible contributing factors that causes the deficiency in revenue collection. The study used in-depth, intensive interviews as the primary data collection. Technically, the data collection was divided into two stages.

The first stage of examination involved the tax administration pilot project reform that was led and initiated by the IMF that started 2001. In this stage, ten interviews were conducted with seven participants who were involved in that project between 2002 and 2007. A secondary data collection was conducted by examining the report published by the DGT and illustrates the experiences of the DGT's staff surrounding that event. One of these follow-up interviews was conducted over the phone using WhatsApp internet-messaging app as the participant was overseas.

The second stage of the data collection examined the current tax administration and built on the information obtained from stage one of data collection between 2015 and 2016. In stage two, nineteen interviews with fourteen participants were conducted. A further focus group discussion with seven taxpayers was also conducted in this stage.

The findings reported in this thesis represent concepts grounded from the research participants' views. Six concepts were identified from stage one. These are *non-operative militancy*, *reward*, *thorough examination in the penalty system*, *supportive supervisor*, *positive working environment*, and *external pressure*. From stage two, five concepts—grouped in two categories named *expectation gap* and *communication gap*—complete the overall picture.

This thesis develops a substantive theory that explains the nature of an effective tax administration—in an Indonesian context—grounded on the participants’ experiences and views. This study reports that for a tax administration to be effective, in addition to attributes such as financial rewards or improved physical facilities—it requires both internal and external factors. While external factor can materialise in a third party’s intervention—such as the IMF in this case—internal factors manifest in the form the six concepts identified in this thesis.

This thesis contributes to the literature and practice by shedding light on the DGT’s organisational reform. As the current literature is dominated by taxpayer-focused studies, this study adds to a more complete picture of the tax administration in Indonesia. It reveals that having staff members with a higher degree of militancy is essential in such reform, particularly in the Indonesian tax office’s context. It then goes on to identify several factors that are considered important in maintaining such sense of militancy. The comparison of the application of these factors and their idealised versions are illustrated as gaps in this thesis. This highlights that for further research it is important to see how these gaps evolve over time. Keywords: taxation, administration, leadership, change, reform, revenue.

ACKNOWLEDGMENTS AND DEDICATIONS

I have been very fortunate to be able to do the highest level of education in such a prestigious, but expensive, institution. I do not come from a financially fortunate family. My late father was a primary school teacher and my mum used to own a small deli at home, but it was closed when the five of us, her kids, came along.

She used to have some farm animals: goats, chickens, geese, and ducks. We did our chores feeding them every day. Yes, the chickens laid eggs, but they were for sale only. On the rare occasions when relatives or colleagues came to visit, chickens and eggs sometimes were served on the dining table, but we, the kids, would be lucky to have a bite if there were leftovers on the table after the grown-ups finished their meals. I still remember vividly, and my daughter laughs every time I tell her this story, the times when my meal was only steamed rice and a pinch of salt just to make it rather savoury. I understand this, totally. It was probably the only way that mum and dad could think of on how to save every cent they hardly earned so that we, the five of us, could go to school. It was still unthinkable how my dad, a primary school teacher in a small village in an Indonesian outback, whom I knew did not make a lot of money from this job, could somehow find ways to pay for our school fees and other expenses, all the way to university. Yes, all of us went to uni and graduated. Love you mum and dad! My first thank you goes to the two of you.

Years later, I screamed like crazy when an email dropped into my mailbox. It was from the Australian Embassy in Jakarta saying that I was offered, should I accept, a scholarship to do a PhD in Australia through their Australia Awards program. It was not an easy process: I was only able to get through after the third attempt, one per year, each built on the failure of the past. So, my second thank you goes to these guys, without whom I would not be here.

Then there are my supervisors at Curtin, Dale and Prafula. I am sure you find me rather hard to handle, as at times, I struggled to understand the direction that you had given me. You certainly gave me valuable opportunities to have a taste on what it feels to be around distinguished tax academics at a level I still cannot believe I could be in. This is truly a privilege. I thank the two of you for this.

Next, I still remember my first days in Perth. My wife and little daughter came not long after that. Living in such a foreign land with completely different language, way of life, food, and so on certainly was not easy for them. My daughter Dyan, she was only seven at that time,

particularly was having a difficult start. She had to leave her good friends in Indonesia behind and started a life in a new country. She had to sit in a classroom full of strange faces who spoke words she barely understood. She finally found a lovely friend. Her name was Elizabeth. I remember they always hugged every time they met before class. Dyan was very sad when Elizabeth left the school only a few weeks later. Her teacher, her name was Mary, told me later on that Dyan often played by herself afterwards during recess. She however never complained and somehow managed to go to school every single day with a smile.

Dyan eventually met a number of girls, had a few giggles, won several awards, joined the school choir, and did a beautiful performance at the big stage in Crown theatre. She was invited to many birthdays, playdates, and sleepovers. We were biking along Swan riverbanks, from South Perth to Burswood. She was enjoying some of her best years in her life right here in Perth. But initially, I know this for a fact, it was not easy for her. And she did all just to be with me here. I could offer only my thanks for the sacrifice you had made.

The same goes with my wife as well. She brought Dyan all alone across the ocean to Australia, and my eyes filled with tears when I saw two persons that I love most walking past the arrival gate at Perth airport. We had our disagreements, arguments here and there at times, but frankly, without you, I don't know what to do. There are no words for how much I love you!

And then to my enormous mates, especially those from the 'early edition' of the Indonesian Muslim student association at Curtin, you all know who you are, I can't thank you enough. You guys had a huge impact on me: the food, the giant container full of ginormous snow crabs, the discussions, and eventually the book that we wrote, published, launched, and sold together. I just can't find your qualities in recent students! I also can't thank enough neighbours and fellow parents at the Vic Park Primary: Trevor and Ida, the Prings, Devindra, Kath, Lenny, Emma, and Jacqueline. Thanks for letting us in. I owe you all. Also, John and his team at the Learning Centre, I owe you huge debt particularly at the difficult time during my candidacy.

Finally, to all my participants, thank you for letting me into your lives. It was truly a privilege to be able to share your stories. This thesis is, without a shadow of doubt, yours!

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LIST OF ABBREVIATIONS

AR	Account representative
AusAID	Australian Agency for International Development
BoD	Board of Directors
CIA	Central Intelligence Agency
DGT	Directorate General of Taxes
DLBA	Duty on land and building acquisition
FBM	Fogg Behavioral Model
GDP	Gross Domestic Product
Gol	Government of Indonesia
HIID	Harvard Institute for International Development
HR	Human resources
IMF	International Monetary Fund
IPEDA	Iuran Pembangunan Daerah
IRS	Internal Revenue Service
IT	Information technology
Kitsda	Kepatuhan Internal dan Transformasi Sumber Daya Aparatur
KPP	Kantor Pelayanan Pajak
KUP	Ketentuan Umum dan Tata Cara Perpajakan
LBT	Land and building tax
LO	Liaison officer
Lol	Letter of Intent
LTO	Large Taxpayer Office
LTU	Large Taxpayer Unit
MoF	Minister of Finance
MPO	Menghitung Pajak Orang
MPS	Menghitung Pajak Sendiri
MTO	Medium Taxpayer Office
NPWP	Nomor Pokok Wajib Pajak

OECD	Organisation for Economic Co-operation and Development
PP	Peraturan Pemerintah
PPD	Pajak Pendapatan
PPS	Pajak Perseroan
SMOEB	Simple Model of Emotional Balancing
SOP	Standard operating procedure
STLG	Sales Tax on Luxury Goods
STO	Small Taxpayer Office
TFN	Tax File Number
US	United States
USP	UMKM Sahabat Pajak
VAT	Value-Added Tax

CHAPTER I

INTRODUCTION

I BACKGROUND AND CONTEXT

Indonesia began undertaking its first major tax reform in 1981. In that year, the World Bank noted that Indonesia's Gross Domestic Product (GDP) was USD 92.47 billion (2016 GDP was USD 932.26 billion) with industry holding the largest share (41.21%), followed by services (35.43%) and agriculture (23.36%).¹ At that time, Indonesia used a tax system inherited from the Dutch administration. Typical for a developing country, the system was considered inefficient because of the limited number of taxpayers, lack of modern administration and—in Indonesia's case—high level of tax avoidance.² The system was also outdated and complicated and its collection procedures were poor.³ Hence, compliance—defined as 'the willingness of taxpayers to act in accordance with the statutory requirements or intentions of the tax law and administration'⁴—and tax return lodgement rates were low and there was an increasing amount of uncollected taxes.⁵ As a result, proceeds outside oil taxation were limited.⁶ Overall, the tax system was seen to be inefficient, unproductive, ineffective at income redistribution and prone to manipulation.⁷

This thesis begins with a description of the historical context of tax reform in Indonesia. This is followed by identification of a potential problem at the administration side of the reform, in particular the behaviour and motivational factors of tax administration personnel to determine how the performance of tax officials and the DGT can be improved to maximise

¹ World Bank, *World Development Indicators* <<http://api.worldbank.org/v2/en/country/idn?downloadformat=excel>>.

² Hidayat Amir, John Asafu-Adjaye and Tien Ducpham, 'The Impact of the Indonesian Income Tax Reform: a CGE Analysis' (2013) 31(0) *Economic Modelling* 492.

³ Malcolm Gillis, 'Micro and Macroeconomics of Tax Reform: Indonesia' (1985) 19(3) *Journal of Development Economics* 221.

⁴ Simon James, *A Dictionary of Taxation* (Edward Elgar, 2nd ed, 2012).

⁵ Gitte Heij, *Tax Administration and Compliance in Indonesia*, Policy Paper/Asia Research Centre on Social, Political, and Economic Change, Murdoch University, (Asia Research Centre on Social, Political, and Economic Change, Murdoch University, 1993).

⁶ Gillis, above n 3.

⁷ Ibid.

revenue collection. Afterwards, a discussion on a model formulated based on concepts raised by research participants in this study—a model that may help to map the solution to the problems—is presented. The thesis concludes by identifying potential research opportunities that could be pursued further. Further details on the organisation of this thesis are outlined in Part III.

A First Major Reform

The first major reform was initiated in 1981 and started with the introduction of the 1984 income tax law. The objective of this reform was to increase non-oil revenue, create more effective income distribution, increase efficiency and reduce transaction costs by limiting the opportunity for corruption.⁸ Its main feature was simplification.⁹ Various tax incentives were removed, the tax base was broadened and tax rates were reduced to a maximum 35% from an initial rate of 50% for individuals and 45% for firms. A single tax identification number was introduced. Additionally, the low-income threshold was increased, meaning that most Indonesians were not subject to income taxation. In addition, companies were required to withhold tax on salary and wages and on investment income. Taxpayers earning only employment income were not required to lodge tax returns.

In addition, a legislation containing a combination of value-added tax (VAT) and sales tax on luxury goods (STLG) was enacted replacing sales tax and turnover tax legislation. The VAT used the credit method and generally followed the destination principle applied in Europe. For simplicity reasons, a single rate of 10% was used with no exemptions. Further simplification was achieved by exempting small businesses from VAT. Land and building tax (LBT) and stamp duty laws were later introduced. Until now, these taxes were the only taxes administered by the Directorate General of Taxes (DGT) and have been the major contributors to national revenue.

The DGT's organisation employed a type-of-tax approach during the time of the first major reform. Income tax and VAT were administered by the Kantor Pelayanan Pajak (KPP, District Tax Office) while LBT was managed by the Kantor Pelayanan Pajak Bumi dan Bangunan

⁸ Ibid.

⁹ Arnold C Harberger, 'Lessons of Tax Reform from the Experiences of Uruguay, Indonesia, and Chile' in Malcolm Gillis (ed), *Tax Reform in Developing Countries* (Duke University Press, 1989) 27.

(KP PBB, Land and Building Tax Office). The Kantor Pemeriksaan dan Penyidikan Pajak (Karikpa, Tax Auditor Office) dealt with tax auditing.

The reform was assisted by foreign advisers from the Harvard Institute for International Development (HIID), who appeared to dominate the reform process.¹⁰ They were predominantly Americans or had an American background and this influenced their approach.¹¹ The income tax law, for instance, featured the Western view of a good tax system, such as simplicity and low tax rates, as found in the United States (US) and Britain in that era.

Although this reform was viewed as successful in increasing non-oil tax revenue,¹² which mainly contributed in terms of growth in the non-oil tax base and an extensive use of the withholding mechanism.¹³ Nonetheless, the tax revenue-to-GDP ratio increased from 5.0% in 1980–1981 to 9.9% in 1995–1996.¹⁴ The number of taxpayers also rose sharply between 1983 and 1986. Strong growth too was evidenced in the number of businesses registered for VAT in the period 1985–1990.¹⁵ By 2015, total taxpayers reached more than 30 million.¹⁶ The reform was also seen to be a success in its introduction of a VAT without affecting economic stability.¹⁷

B Second Major Reform

Following the Asian economic crisis in 1997-1998, it was recognised that there was a need to improve the overall efficiency of the Indonesian tax administration system; and several international donors—such as the IMF, AusAID, CIDA, and JICA—were in fact involved in

¹⁰ Gitte Heij, 'The 1981–83 Indonesian Income Tax Reform Process: Who Pulled The Strings?' (2001) 37(2) *Bulletin of Indonesian Economic Studies* 233.

¹¹ Ibid.

¹² Fuad Bawazier, 'Reformasi Pajak di Indonesia' (2011) 8(1) *Jurnal Legislasi Indonesia* 1.

¹³ Mohamad Ikhsan, Ledi Trialdi and Syarif Syahril, 'Indonesia's New Tax Reform: Potential and Direction' (2005) 16(6) *Journal of Asian Economics* 1029.

¹⁴ Amir, Asafu-Adjaye and Ducpham, above n 2.

¹⁵ Wing Thye Woo, Bruce Glassburner and Anwar Nasution, *Macroeconomic Policies, Crises, and Long-Term Growth in Indonesia, 1965-90*, World Bank Comparative Macroeconomic Studies (World Bank, 1994).

¹⁶ *Refleksi Tingkat Kepatuhan Wajib Pajak* (23 March 2016) <<http://www.pajak.go.id/content/article/refleksi-tingkat-kepatuhan-wajib-pajak>>.

¹⁷ Malcolm Gillis, 'Comprehensive Tax Reform: The Indonesian Experience, 1981-1988' in Malcolm Gillis (ed), *Tax Reform in Developing Countries* (Duke University Press, 1989) 79.

providing assistance on this matter.¹⁸ This thesis focuses on the tax administration project reform assisted by the IMF. This is because this particular part of the reform project resulted in core tax administration principles that later on became the integral parts of the whole tax administration system in Indonesia.

The involvement of the IMF in the Indonesian tax administration reform started with point 12 of the Letter of Intent (LoI) dated 20th January 2000 which recognised the need to overhaul the Indonesian tax administration system.¹⁹ Later on—in a LoI dated 9th April 2002—it was stated that Large Taxpayer Office (LTO) 1 to 2 be established in June 2002 as an effort to strengthen tax administration and improve tax revenue collection.²⁰ These new offices featured a function-based organisation, service-oriented system, accelerated refund process and effective enforcement.²¹

Given the IMF's known-preference towards the adoption of a Large Taxpayer Unit (LTU),²² it is reasonable to believe that the establishment of two LTOs offices in Indonesia was part of the conditions imposed by the IMF on the Government of Indonesia (GoI). Another indication for this, for instance, can be seen in the decision to use a function-based organisation, which is consistent with the IMF's view that an LTU be mandated to administer all major national taxes,²³ a view that was literally a departure from what was practised in Indonesia in that era. This new organisational type however is believed to help improve taxpayer services.²⁴

¹⁸ Rizal, Yond. 2011. 'Lessons from Indonesian Tax Administration Reform Phase 1 (2001-2008): Does Good Governance Matter?' in Hirotsumi Kimura, Suharko, Aser B Javier and Ake Tangsupvattana (eds.), *Limits of Good Governance in Developing Countries* (Gadjah Mada University Press: Yogyakarta) 414.

¹⁹ GoI, *Letter of Intent of the Government of Indonesia and Memorandum of Economic and Financial Policies* <<http://www.imf.org/external/np/loi/2000/idn/01/>>.

²⁰ GoI, *Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding* <<http://www.imf.org/external/np/loi/2002/idn/01/index.htm>>.

²¹ John Brondolo et al, 'Tax Administration Reform and Fiscal Adjustment: the Case of Indonesia (2001-07)' (2008) *IMF Working Paper No WP/08/129*.

²² Roy W Bahl and Richard M Bird, 'Tax Policy in Developing Countries: Looking Back—and Forward' (2008) LXI(2) *National Tax Journal* 279.

²³ Katherine Baer, Olivier P Benon and Juan Toro, *Improving Large Taxpayers' Compliance: A Review of Country Experience* (IMF, 2002).

²⁴ William McCarten, 'The Role of Organizational Design in the Revenue Strategies of Developing Countries: Benchmarking with VAT Performance' in James Alm, Jorge Martinez-Vazquez and Mark Rider (eds), *The Challenges of Tax Reform in a Global Economy* (New York : Springer, 2006) 413.

The main reason for using an LTU generally is to secure revenue²⁵ by ensuring taxpayer compliance through on-time filing and tax payment.²⁶ It is believed that such a unit increases compliance and improves administrative effectiveness.²⁷ Nevertheless, LTUs may fail if the general tax reform agenda is not based on a gradual process, strong political will and an emphasis on simplicity.²⁸ Once an LTU is functioning well, its design can then be applied nationally. It therefore can act as a catalyst for a wider reform process.²⁹

In Indonesia, the pilot project for tax administration modernisation took an incremental approach. As previously mentioned, it was initiated by the establishment of the LTO in 2002 and its design was subsequently tested in Central Jakarta with pilot offices for medium taxpayers (Medium Taxpayer Office, MTO) and small taxpayers (Small Taxpayer Office, STO) in 2004.³⁰ In addition to the IMF, other agencies were also involved in the early stages of the two LTOs, such as the AusAID who contributed more than AUD 650 thousand between 2002-2003.³¹ The involvement of such donor agencies was mainly because of the inability of the IMF to further finance their assistance on the Indonesian tax reform,³² particularly when their project approached its expiration in 2003.³³

The AusAID commenced its contribution to this IMF-led programme by sending two advisors in 2002. Although funded by the AusAID, the nature of the assistance provided by these advisors followed strictly the guidelines set by the IMF.³⁴ Another significant donor in this project was the World Bank who provided a loan of USD 110 million for a project named Project for Indonesian Tax Administration Reform (PINTAR), which largely concerned with the

²⁵ Baer, Benon and Toro, above n 23.

²⁶ Charles L Vehorn, 'Fiscal Adjustment in Developing Countries Through Tax Administration Reform' (2011) 45(1) *The Journal of Developing Areas* 323.

²⁷ Baer, Benon and Toro, above n 23.

²⁸ Vehorn, above n 26.

²⁹ McCarten, above n 24.

³⁰ Minister of Finance Regulation No 65/KMK.01/2002.

³¹ AusAID, JSCFADT Foreign Affairs Sub-Committee: Inquiry into Australia's Relationship with Indonesia (Request for Further Information from AusAID) <https://www.aph.gov.au/~media/wopapub/house/committee/jfadt/indonesia/subs/subindo116_pdf.ashx>

³² Forrester, Geoff, *Staying the Course: AusAID's Governance Performance in Indonesia* <https://archive.lowyinstitute.org/sites/default/files/pubfiles/Forrester%2C_Staying_the_course_A4_v2_full_1.pdf>.

³³ AusAID, above n 31.

³⁴ Forrester, above n 32.

DGT's information technology.³⁵ However, due to the lack of satisfactory progress, this project was suspended.³⁶ As a consequence, the subsequent results of the reform can reasonably be attributed to the overall IMF's tax administration reform programme. Such results include for instance the high taxpayer satisfaction score in the AC Nielsen eQ survey³⁷ and a significant increase in revenue collection (see Chapter III for a more detailed discussion). According to Brondolo, the increase in compliance that led to the revenue rises through these pilot offices was mostly associated with the administrative reform.³⁸

The system applied in the pilot offices was adopted nationally under the tax administration modernisation programme initiated in 2007. The focus was on improving voluntary compliance, taxpayer trust and tax officials' productivity through improved service quality and the taxpayer monitoring system.³⁹ In this context, several changes were introduced, including the following.

1 Organisational Changes

The focus of the reform was to increase taxpayer services and monitoring using a customer-oriented approach. To achieve this, several changes were introduced, including:

1. The unification of three types of tax offices—the KPP, KP PBB and Karikpa—into a single office following the model of the pilot offices. It was expected that taxpayer services would increase as they would only need to visit one, rather than three, offices. This reorganisation was completed nationally in 2008.
2. The introduction of an account representative (AR) role. The main duties of an AR are providing consultation to taxpayers, informing taxpayers of the latest tax rules and conducting taxpayer compliance monitoring. This design means that the tax office 'knows their taxpayers'.

³⁵ The World Bank, Project Appraisal Document on a Proposed Loan in the Amount of US\$ 110.0 Million to the Republic of Indonesia in Support of a Project for Indonesian Tax Administration Reform The World Bank <<http://documents.worldbank.org/curated/en/841691468041698134/pdf/467310PAD0P10010only100R20081027211.pdf>>.

³⁶ The World Bank, *Implementation Status & Results Indonesia Project for Indonesian Tax Administration Reform (PINTAR) (P100740)* The World Bank <<http://documents.worldbank.org/curated/en/433251468266364163/pdf/ISR-Disclosable-P100740-10-04-2014-1412435874143.pdf>>.

³⁷ Brondolo et al, above n 21.

³⁸ Ibid.

³⁹ Liberti Pandiangan and Rayendra L Toruan, *Modernisasi & Reformasi Pelayanan Perpajakan Berdasarkan UU Terbaru* (Elex Media Komputindo, 2008).

2 Business Process Changes

Business process changes are aimed at implementing an automation system, particularly for clerical jobs; thereby increasing efficiency and effectiveness. In this process, development of standard operating procedures (SOPs) began in 2007. Another change was the introduction of an electronic system. This included the e-filing and e-registration system for taxpayers and the Sistem Informasi DJP (DGT's Information System) for tax administration purposes. In addition, a limited electronic tax payment facility was introduced in 2013.

3 Human Resource Management Changes

In the human resources context, the administrative reform included introduction of an employee competence assessment, a customer-driven approach and continuous improvement. A code of conduct was also developed and it was made compulsory for tax office employees to abide by the code of conduct.⁴⁰

C Organisational Performance

The second major reform led to tax organisations being recognised via the receipt of several awards, for example:⁴¹

1. Naming as the most innovative public service provider as recognised by MarkPlus Insight—an Indonesian marketing consulting firm—in 2009.
2. Obtaining a high Anti-Corruption Initiatives Assessment score of 8.18 from the Indonesian Corruption Eradication Commission in 2011.
3. Winning various medals in international contact centre competitions.

National revenue, however, does not reflect the positive trend seen for the pilot offices. Despite the continuous GDP increase, overall, the tax revenue-to-GDP ratio fell from 12% in 2006 to 10% in 2015. A higher ratio can be seen in 2008, possibly because of the revenue increase as a result of the partial tax amnesty—known as the sunset policy—in that year. Overall, in 2007–2015, the average tax revenue-to-GDP ratio dropped to 11% from a 13% average for 1999–2006 at the period when Indonesia's GDP showed a continuing increase (Table I.1). Normally, a GDP increase positively correlates with tax revenue increase, in a sense

⁴⁰ As part of the preventive measure to minimise corruption within the Indonesian tax office, every tax officer is required to abide by a set code of conduct, consisting of nine obligations and eight prohibitions (Minister of Finance Regulation No 1/PM.3/2007).

⁴¹ Directorate General of Taxes, 'Harmonization in Building the Nation (2012 Annual Report)' (Directorate General of Taxes, 2012) <<http://www.pajak.go.id/sites/default/files/AR%20DJP%202012-Eng%20%28Lowres%29.pdf>>.

that as GDP rises, tax revenue grows accordingly. This is because the size of GDP normally indicates a country's development stage. As a country's development stage advances—as indicated by an increase in GDP—its capacity to collect taxes normally increases as well.⁴² What was evident in Indonesia as shown in Table I.1 however indicates otherwise.

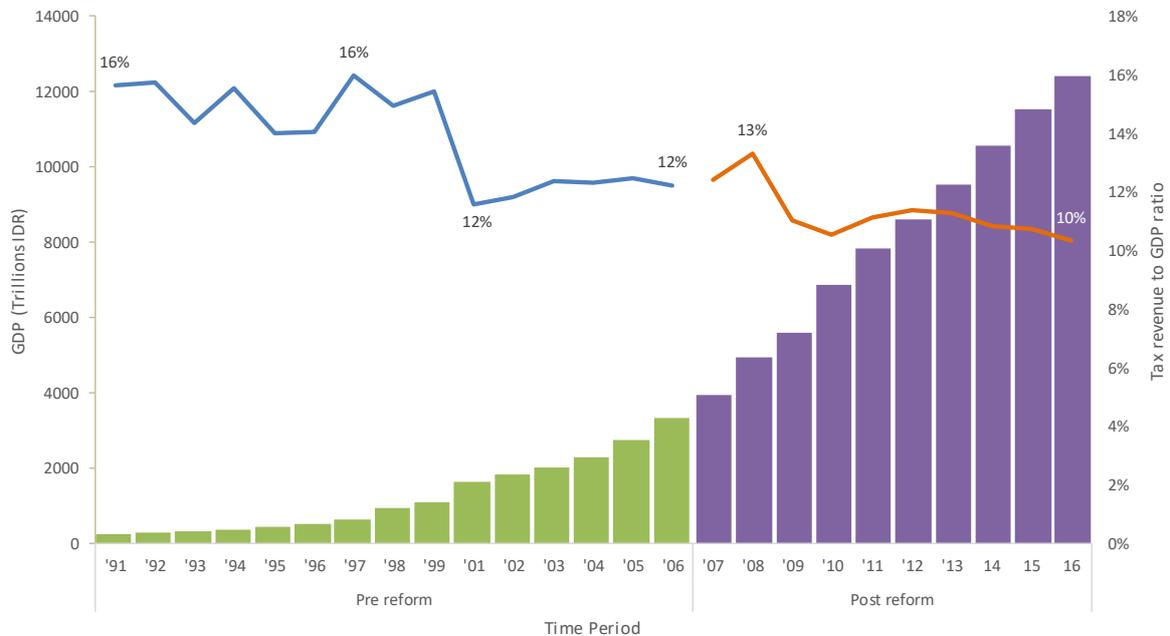


Figure I.1 Tax revenue-to-GDP ratio (1991–2016)⁴³

The nature of the decline however differs from one tax to another. Income tax (non oil and gas) for instance shows a continuous decreasing pattern albeit there is a slight increase in 2015 (Figure I.2). Such a declining pattern is also evident in other taxes, such as income tax (oil and gas) and LBT (Land and Building Tax)-DLBA (Duty on Land and Building Acquisition). For VAT and Sales Tax on Luxury Goods, the revenue to GDP ratio seems to fluctuate between 3% and 4%. These two taxes, too, show a declining trend between 2013 and 2015.

⁴² Raja J. Chelliah, 'Trends in Taxation in Developing Countries' (1971) 18(2) *IMF Staff Papers* 254.

⁴³ The chart is based on data obtained from World Bank, *World Development Indicators* <<http://api.worldbank.org/v2/en/country/idn?downloadformat=excel>> accessed on 3 January 2018.

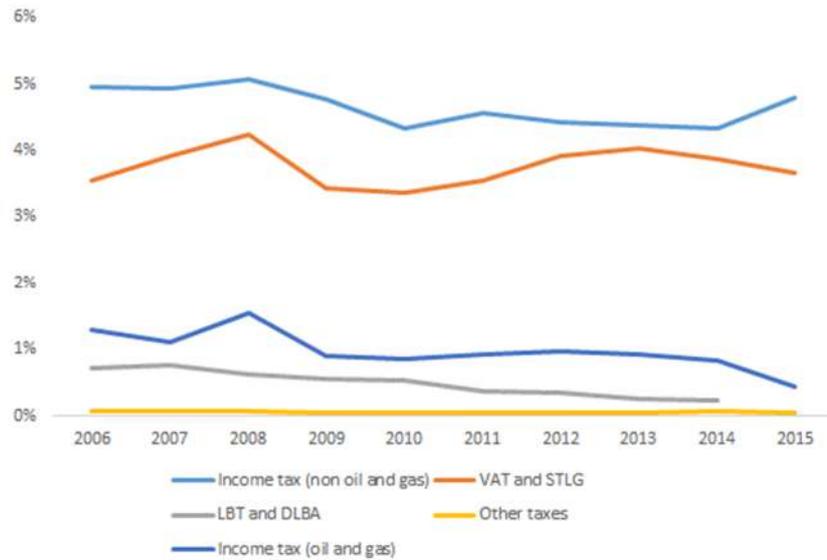


Figure I.2 Tax revenue-to-GDP ratio for each tax (1991–2015)⁴⁴

Further, in 2007–2012, the average ratio was lower than that of neighbouring countries (Figure I.3). Even when oil and gas tax revenue are excluded, the average ratio was still lower.

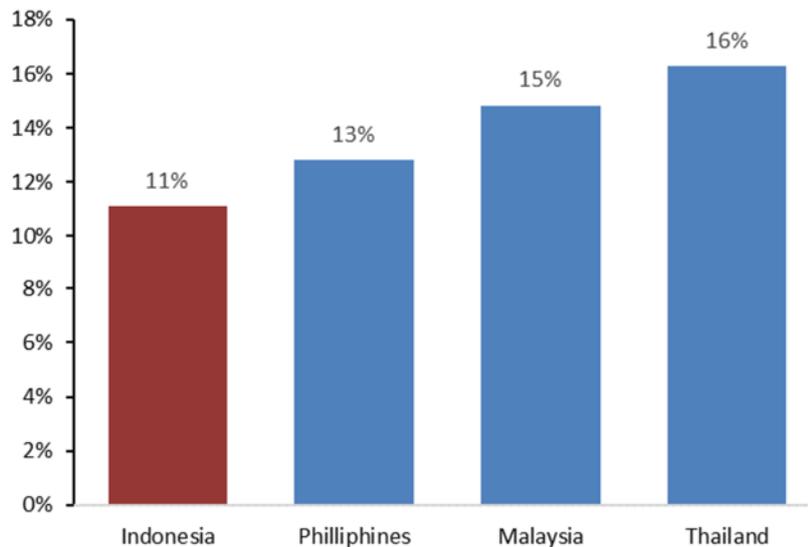


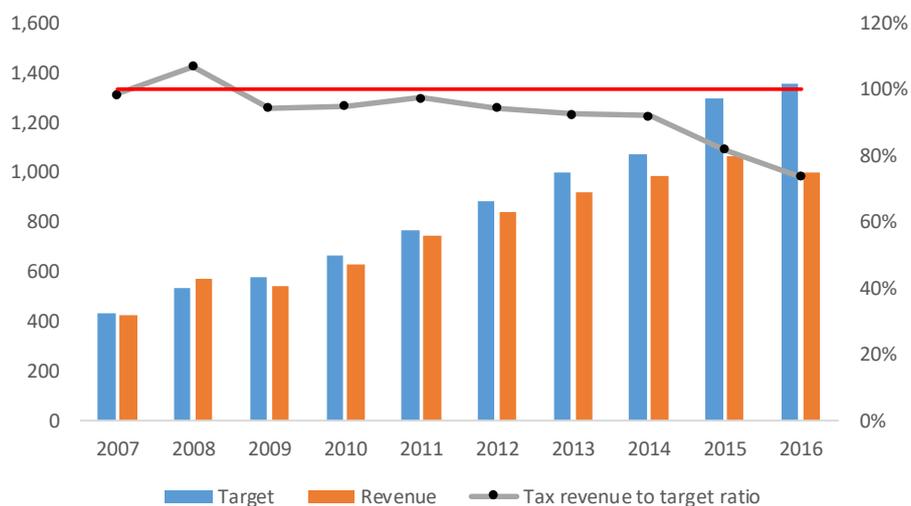
Figure I.3 Average of tax revenue-to-GDP ratio (2007–2015)⁴⁵

Another indication of revenue performance can be gained from Indonesia's tax effort. Tax effort basically refers to the ratio between real tax collection and tax capacity, which is the

⁴⁴ The chart is based on data obtained from the World Bank's database (<http://api.worldbank.org/v2/en/country/IDN>) accessed on 14 June 2017 and Central Government Financial Statement (<https://www.kemenkeu.go.id/Page/laporan-keuangan-pemerintah-pusat>) accessed on 22 June 2017.

⁴⁵ The chart is based on data obtained from the World Bank's database (<http://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS>) accessed on 14 June 2017.

maximum tax revenue that can be collected. Based on the 1991–2006 data, it is estimated that Indonesia raised 59.8% of its full taxing capacity.⁴⁶ This proportion decreased to 47.0% for 2011.⁴⁷ As such—based on the 1994–2009 data—a World Bank study classified Indonesia as a country with low tax effort and tax collection.⁴⁸ This means that revenue is collected below maximum capacity and the agency suggests that more emphasis should be put on revenue enhancement through policy and administrative reform. Another indication, since 2007, is that the DGT was only just able to meet its legislated tax revenue target in 2008 (Figure I.4), possibly because of the tax amnesty mentioned earlier. Although one could question how these targets are set, this trend may reflect the DGT’s limited capacity. This fact is alarming as taxation makes a major contribution to Indonesia’s revenue (Figure I.5). The compliance level was also low—a problem already noted by the World Bank in the 1990s.⁴⁹ As an indication, in 2016, almost 40% of those who were obliged to lodge an income tax return failed to do so (Figure I.6).



⁴⁶ Ricardo Fenochietto and Carola Pessino, 'Understanding Countries' Tax Effort' (Working Paper No WP/13/244, International Monetary Fund, 2013) <<http://www.imf.org/external/pubs/ft/wp/2013/wp13244.pdf>>.

⁴⁷ OECD, *OECD Economic Surveys: Indonesia 2016* (OECD Publishing, 2016).

⁴⁸ Tuan Minh Le, Blanca Moreno-Dodson and Nihal Bayraktar, 'Tax Capacity and Tax Effort: Extended Cross-Country Analysis from 1994 to 2009' (2012) *Policy Research Working Paper No 6252*.

⁴⁹ Woo, Glassburner and Nasution, above n 15.

Figure I.4 Tax revenue and tax revenue target (2007–2016)⁵⁰

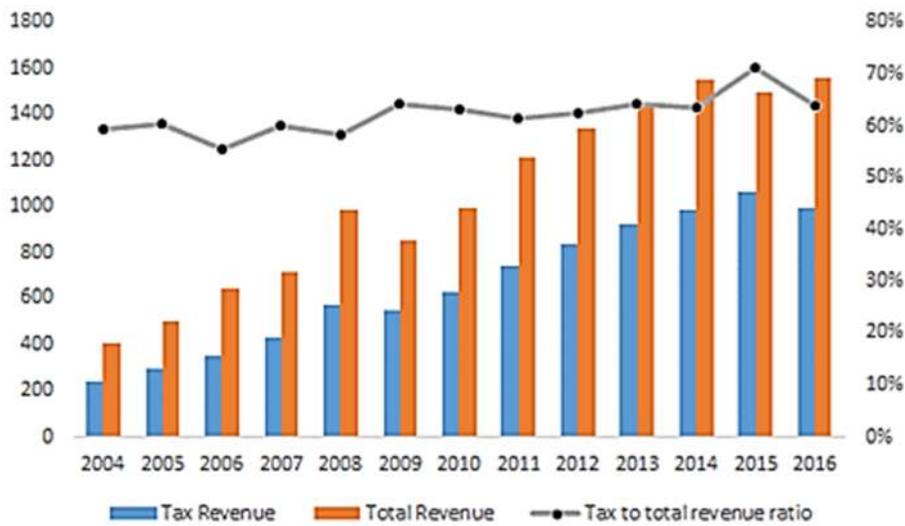


Figure I.5 Tax revenue contribution towards total revenue (2004–2016)⁵¹

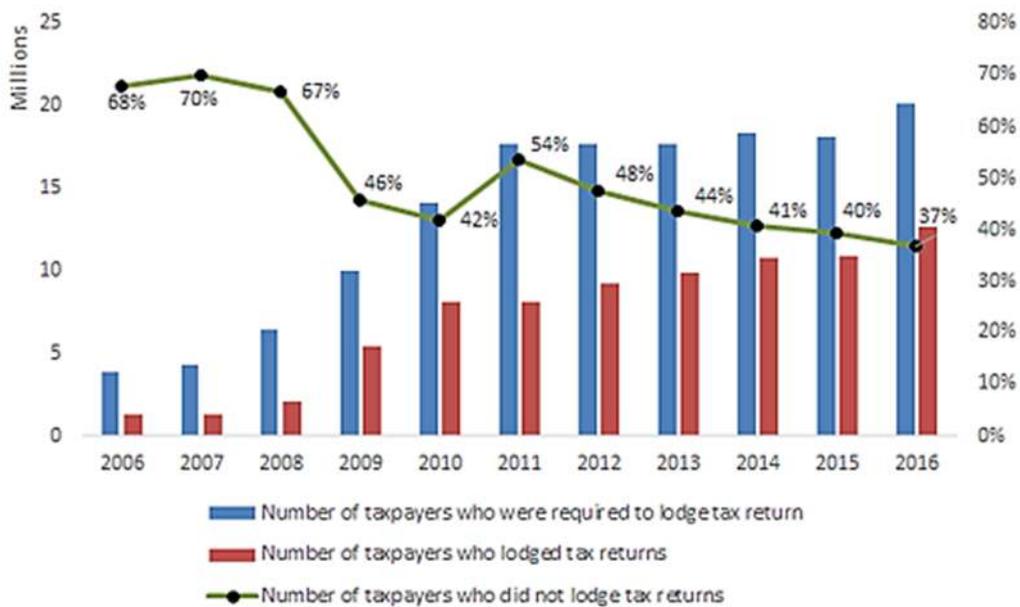


Figure I.6 Tax return lodgement ratio (2006–2016)⁵²

⁵⁰ The chart is based on data obtained from the Central Government Financial Statement (audited). There are eight auditor's reports on these statements for the financial year of 2004 until 2016. These reports are available for download from the website of the State Audit Agency at <<http://www.bpk.go.id/lkpp>> (last accessed on 22 June 2017). This chart uses data compiled from these reports.

⁵¹ This chart is based on data obtained from Government of Indonesia financial report (audited) from 2014 to 2016. The 2017 report is not available at the time of writing.

⁵² The chart is based on data obtained from the 2010 DGT's annual report (<http://www.pajak.go.id/sites/default/files/Annual%20Report%20DJP%202010-ENG.pdf>) accessed on 21 June 2017 and the

It can be seen in Figure I.6 that, following the tax amnesty in 2008, there was a rise in the tax return lodgement ratio and a continuing increase in the number of taxpayers who lodged tax returns. However, it is interesting to note that despite this increase, revenue performance in the same period moved in the opposite direction (Figure I.1).

This perhaps was contributed by the fact that it was possible for tax returns to be lodged without any tax payments, particularly for employment income. As the income tax on such income was already withheld, it was often the case where employees did not feel the need to register as taxpayers and lodge tax returns. However, when the income tax legislation was amended in 2008, unregistered taxpayers were subject to a 20% penalty on their tax payable. This resulted in a large increase in newly-registered taxpayers simply to avoid the 20% penalty. They eventually lodged tax returns in subsequent years, which may have caused the growth in tax return lodgement ratio seen in Figure I.6. Tax revenue however did not increase accordingly as their taxes were actually already withheld regardless their taxpayer registration status.

It can also be seen in this illustration that the Indonesian tax system follows the self-assessment system, where tax liability is mostly based on information provided voluntarily by the taxpayer.⁵³ This system itself is not new as it has been adopted in the US and Canada since the 1910s (Table I.1).

Table I.1 The adoption of the self-assessment system in selected countries⁵⁴

Country	Year of Adoption	
	Company	Individuals
United States	1913	1913
Canada	1917	1917
Japan	1947	1947
Sri Langka	1972	1972
Pakistan	1979	1979
Australia	1986/1987	1992
New Zealand	1988	1988
United Kingdom	1999	1996/1997
Malaysia	2001	2004

2016 DGT's performance report (<http://www.pajak.go.id/sites/default/files/LAKIN%20DJP%202016.pdf>) accessed on 21 June 2017.

⁵³ Rex Marshall, Malcolm Smith and Robert W. Armstrong, 'Self-Assessment and the Tax Audit Lottery: the Australian Experience' (1997) 12(1) 9.

⁵⁴ Noor Sharoja Sapiei and Jeyapalan Kasipillai, 'Impacts of the Self-Assessment System for Corporate Taxpayers' (2013) 3(2) *American Journal of Economics* 75.

The OECD in their report shows that most of their non-European members have adopted the self-assessment system.⁵⁵ Around 50% of the OECD members (N=32) apply this system in their personal income tax system, whereas for corporate income tax, the proportion is higher at around 60%. In addition, OECD also reports the adoption of the self-assessment in non-OECD members included in that study (N=20) is higher than in OECD members, at the rate of 60% and 87% for personal and corporate income tax respectively.

The self-assessment system as applied in Indonesia relies on voluntary compliance. Theoretically, voluntary compliance is likely to exist if the revenue authority can demonstrate a service-client attitude to increase trust in the authority.⁵⁶ The findings of the AC Nielsen survey of the pilot offices (the LTO, MTO and STO projects) seem to be consistent with this.

The DGT's commitment towards the client-oriented approach is evident in terms of revenue; however, the strong growth seen in the pilot offices does not seem to be evident since the administration style from that project was adopted nationally, despite the continuous GDP rise. This is perhaps related to the low compliance level indicated in Figure I.6.

D Scope of The Research

There are two groups of taxes in Indonesia. The first group is local taxes, managed by either provincial or district/municipality governments (Table I.2).⁵⁷

Table I.2 Local taxes⁵⁸

Government level	Tax type
Provincial	Pajak Kendaraan Bermotor (motor vehicle tax)
	Bea Balik Nama Kendaraan Bermotor (motor vehicle transfer tax)
	Pajak Bahan Bakar Kendaraan Bermotor (fuel tax)
	Pajak Air Permukaan (surface water tax)
	Pajak Rokok (cigarette tax)
District/municipality	Pajak Hotel (hotel tax)
	Pajak Restoran (restaurant tax)
	Pajak Hiburan (entertainment tax)
	Pajak Reklame (advertisement tax)
	Pajak Penerangan Jalan (streetlight tax)
	Pajak Mineral Bukan Logam dan Batuan (non-metal and rock mineral tax)
	Pajak Parkir (parking tax)
Pajak Air Tanah (ground water tax)	

⁵⁵ OECD, *Tax Administration 2013* (OECD, 2013).

⁵⁶ Erich Kirchler, Erik Hoelzl and Ingrid Wahl, 'Enforced Versus Voluntary Tax Compliance: the "Slippery Slope" Framework' (2008) 29(2) *Journal of Economic Psychology* 210.

⁵⁷ Law No 28 of 2009.

⁵⁸ Ibid.

Government level	Tax type
	Pajak Sarang Burung Walet (swift's nest tax)
	Pajak Bumi dan Bangunan Perdesaan dan Perkotaan (LBT)
	Bea Perolehan Hak atas Tanah dan Bangunan (DLBA)

Second, there are taxes administered by the central government through the DGT. This includes income tax, VAT and sales tax on luxury goods, and Land and Building tax for the plantation, forestry and mining sector. Further discussions in this thesis regarding Indonesian taxes—such as the ratio of tax revenue to GDP—refer to these central taxes only. A brief discussion of each tax type that belongs to this second group is as follows.

1. Income Tax

Income tax is levied on individuals and corporate entities. Generally, an individual is regarded as a taxpayer if they:⁵⁹

1. reside in Indonesia
2. are present in Indonesia for more than 183 days in a given financial year
3. are present in Indonesia and intend to reside in Indonesia.

An individual earning annual income higher than the annual non-taxable income (Table I.3)⁶⁰ is subject to income taxation.

Table I.3 Non-taxable income⁶¹

Item	Non-taxable income
Taxpayer	36,000,000
Spouse	3,000,000
Dependant (maximum of three)	3,000,000

The applicable tax rate follows a progressive system and ranges from 5% as the lowest to 30% as the top rate (Table I.4).⁶²

Table I.4 Income tax rates for individuals⁶³

Taxable income	Rate
The first IDR 50 million	5%
The next IDR 200 million	15%
The next IDR 250 million	25%
The next amount over IDR 500 million	30%

⁵⁹ Article 2 paragraph (3) Law No 36 of 2008.

⁶⁰ Minister of Finance Regulation No 122/PMK.010/2015.

⁶¹ Minister of Finance Regulation No 122/PMK.010/2015.

⁶² Article 17 paragraph (1) Law No 36 of 2008.

⁶³ Law No 36 of 2008.

However, corporate taxpayers are subject to a flat rate of 25%.⁶⁴ A reduction in rate of 5%, resulting in a 20% effective rate, is applicable for companies whose shares are at least 40% publicly traded in the stock exchange. Small businesses with an annual turnover not exceeding IDR 4.8 billion are, however, subject to 1% taxation levied on their gross turnover.⁶⁵ This effectively puts them in a rather unfortunate position as the decision to use gross turnover as a tax base makes them always liable to pay tax even though they may have losses.

It is to be noted that the Indonesian income tax operates mainly via a withholding system. This includes salary and wages; purchases made by government institutions; passive income and payments made to non-resident taxpayers; and final taxes on items such as rental property income or the small business taxation. Some of these withholding tax payments can be credited against total income tax payable.

There are multiple rates for this withholding system. For example, withholding tax under article 4 paragraph (2) has 20 different rates ranging from 0.1% of gross sales for income derived from the sale of shares obtained by venture capital⁶⁶ to 25% of gross income in the form of a prize.⁶⁷ As mentioned, these so-called final taxes cannot be credited at the end of a financial year when a tax return is lodged. Other withholding taxes have their own rate structure, totalling 55 rates in addition to the progressive rate in article 17 (Table I.5).

Table I.5 Number of applicable withholding tax rates⁶⁸

Applicable article on income tax	Number of rates
Article 4 paragraph (2)	20
Article 15	5
Article 21	11
Article 22	15
Article 26	4

A company is regarded as a resident taxpayer if it is incorporated in Indonesia.⁶⁹ A permanent establishment, through which a foreign entity carrying on a business in Indonesia, is generally treated as if it were a resident corporate taxpayer.⁷⁰ Companies are liable to withhold income taxes on dividends paid to their shareholders at the rate of 15% for company

⁶⁴ Article 17 paragraph (2a) Law No 36 of 2008.

⁶⁵ Government Regulation No 46/2013.

⁶⁶ Government Regulation No 4/1995.

⁶⁷ Government Regulation No 132/2000.

⁶⁸ Law No 36 of 2008.

⁶⁹ Article 2 paragraph (3) Law No 36 of 2008.

⁷⁰ Article 2 paragraph (1a) Law No 36 of 2008.

shareholders or 10% for individual shareholders.⁷¹ There are some income tax incentives available for companies in the form of, for example, tax holidays, rate reduction for publicly listed companies or fixed asset revaluation. Regarding international taxation, Indonesia currently has a network of double tax agreements with 65 jurisdictions and six tax information exchange agreements. This includes offshore jurisdictions such as the Bahamas, Bermuda, Guernsey, Isle of Man, Jersey and San Marino.

2. Value-added Tax and Sales tax on Luxury Goods

Another important source of revenue is VAT and sales tax on luxury goods. Generally, the Indonesian type of VAT follows the European system.⁷² In essence, transactions involving most goods or services made by a registered enterprise (known as a *Pengusaha Kena Pajak*) are subject to VAT. This includes:⁷³

1. sale of taxable goods/services
2. import of taxable goods
3. use of foreign taxable intangible goods
4. use of foreign taxable services
5. export of taxable goods (tangible or otherwise) or services.

Unless stated otherwise, all goods or services are subject to VAT. VAT-exempt goods include raw mining products (such as crude oil, coal and gas), basic commodities (such as rice, soybeans and corn), food and beverages served in hotels or restaurants and financial products such as money, securities and gold bars.⁷⁴ For services, the exemptions include medical, financial, religious, educational and hotel services.⁷⁵

A business with an annual turnover of at least IDR 4.8 billion per annum (~AUD 488,000 on 23 May 2016) must be registered for VAT purposes.⁷⁶ When this threshold is reached, the enterprise must register for VAT purposes. Once registered, it must withhold, as VAT on sales,

⁷¹ It can be seen here that the Indonesian dividend taxation system uses the classical system where monies paid as dividend are taxed twice: at the hand of the company before the distribution is made and at hand of shareholder when the distribution is made. There is no tax credit available for shareholder on taxes already paid by the company.

⁷² Gillis, above n 17.

⁷³ Article 4 Law No 42 of 2009.

⁷⁴ Article 4A paragraph (2) Law No 42 of 2009.

⁷⁵ Article 4A paragraph (3) Law No 42 of 2009.

⁷⁶ Minister of Finance Regulation No 197/PMK.03/2013.

10%⁷⁷ of the value of the exchange it makes on taxable goods or services. It also is entitled to claim input tax credit on purchases from its registered business partners. The difference between the amounts it withheld and the amount paid to other parties can be either payable or claimed as a tax refund.

VAT is calculated by multiplying the tax rate by the tax base, which is generally the transaction value or other value.⁷⁸ The term *other value* includes several items such as:⁷⁹

1. cost of sales for own use, free gifts or internal transactions between branches
2. estimated average revenue for movies
3. retail price for tobacco products
4. market value for related-party transactions, non-inventory assets originally not intended to be sold, remaining inventory on a company's dissolution
5. auction price
6. agreed price for sales through an intermediary agent
7. a 10% amount on the actual billing for shipment services, travel agency or freight-forwarding services.

A registered enterprise is required to lodge a monthly VAT return outlining its transactions in the previous month, VAT withheld from other parties and VAT paid to other parties. Overpayments must be accumulated and can only be refunded at the end of financial year after a tax audit is performed.

In addition to VAT, sales tax on luxury goods is applicable to certain goods deemed as luxury⁸⁰ with a minimum rate of 10% and a maximum of 200%,⁸¹ although the currently applicable rates established under various Minister of Finance regulations are between 10% and 125%. These rates are applicable to transactions involving either motor vehicle or non-motor vehicle goods (such as luxury houses, aircraft, cruisers or firearms). Unlike VAT, there is no tax credit available for sales tax on luxury goods paid to other parties.

3. Land and Building Tax

⁷⁷ Under article 7 Law No 42 of 2009, the tax rate can be set as low as 5% or as high as 15%. Export is also subject to VAT at the rate of 0%.

⁷⁸ Article 8A Law No 42 of 2009.

⁷⁹ Minister of Finance Regulation No 121/PMK.03/2015.

⁸⁰ Article 5 Law No 42 of 2009.

⁸¹ Article 8 Law No 42 of 2009.

Another type of tax managed by the DGT is the LBT, which is initially levied on properties in several sectors such as rural, urban, forestry, mining and plantation. In 2014, LBT on rural and urban properties was transferred to local governments and hence, is no longer managed by the DGT.⁸² Properties in the remaining sectors, however, are still subject to LBT managed by the DGT. The LBT is levied on the value of a property, which is calculated either based on income generated by the property or costs associated in maintaining the property. The applicable rate is 0.5% on 40% of the property value.

This research was prompted by a concern regarding the ability of the DGT to meet its tax revenue targets from these central taxes (Figure I.4). A number of factors have been cited in the literature as significant in determining tax revenue. In general, income per capita and GDP for instance, have been found to positively affect tax revenue.^{83,84,85,86} This is logical, as GDP generally reflects a country's development stage. As a country's development stage advances, its capacity to collect taxes normally increases as well.⁸⁷ Other factors include political⁸⁸ and economic stability,⁸⁹ trade openness,^{90,91,92,93} economic growth,⁹⁴ a strong industrial sector,^{95,96} or even the protection of civil liberties.⁹⁷

⁸² Law No 28 of 2009.

⁸³ Abhijit Sen Gupta, 'Determinants of Tax Revenue Efforts in Developing Countries' (2007) *IMF Working Paper No WP/07/184*.

⁸⁴ Gerardo Ángeles Castro and Diana Berenice Ramírez Camarillo, 'Determinants of Tax Revenue in OECD Countries Over the Period 2001–2011' (2014) 59(3) *Contaduría y administración* 35.

⁸⁵ Micah Samuel Gaalya, 'Trade Liberalization and Tax Revenue Performance in Uganda' (2015) 6(2) *Modern Economy* 228.

⁸⁶ José Antonio Alonso and Carlos Garcimartín, 'Does Aid Hinder Tax Efforts? More Evidence' (2011) *CREDIT Research Paper No. 11/04*.

⁸⁷ Chelliah, above n 42.

⁸⁸ Imran Sharif Chaudhry and Farzana Munir, 'Determinants of Low Tax Revenue in Pakistan' (2010) 30(2) *Pakistan Journal of Social Sciences (PJSS)* 439.

⁸⁹ Gupta, above n 83.

⁹⁰ Ibid.

⁹¹ Gaalya, above n 85.

⁹² Azka Amin et al, 'Factors Affecting Tax Collection in Pakistan: An Empirical Investigation' (2014) 2(5) *Journal of Finance and Economics* 149.

⁹³ Chaudhry and Munir, above n 88.

⁹⁴ Saibu Olufemi Muibi and Olatunbosun O Sinbo, 'Macroeconomic Determinants of Tax Revenue in Nigeria (1970–2011)' (2013) 28(1) *World Applied Sciences Journal* 27.

⁹⁵ Castro and Camarillo, above n 84.

⁹⁶ Gaalya, above n 85.

⁹⁷ Castro and Camarillo, above n 84.

There are also factors that can negatively affect tax revenue. Some examples cited in the literature include social institutions—such as corruption and rule of law⁹⁸—the share of agriculture in an economy,^{99,100,101,102} corruption,^{103,104} political instability,¹⁰⁵ and the level of shadow economy.¹⁰⁶ With regards to shadow economy—this generally includes the production of goods and services that intentionally is hidden from the authorities¹⁰⁷—even though Indonesia has a relatively smaller size of shadow economy compared to its neighbours (Figure I.7)—at an average of nearly 20% of GDP between 1999 and 2005—it is by no means insignificant.¹⁰⁸

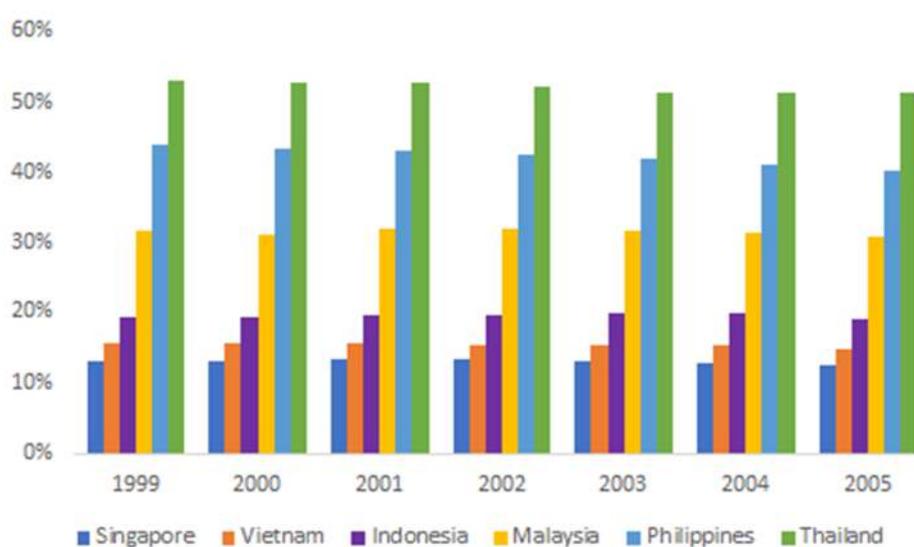


Figure I.7 The size of shadow economy in selected South-East Asian countries¹⁰⁹

⁹⁸ Richard M Bird, Jorge Martinez-Vazquez and Benno Torgler, 'Societal Institutions and Tax Effort in Developing Countries' (2014) 15(1) *Annals of Economics and Finance* 185.

⁹⁹ Gupta, above n 83.

¹⁰⁰ Chaudhry and Munir, above n 88

¹⁰¹ Alonso and Garcimartín, above n 86.

¹⁰² Castro and Camarillo, above n 84.

¹⁰³ Amin et al, above n 92.

¹⁰⁴ Alonso and Garcimartín, above n 86.

¹⁰⁵ Amin et al, above n 92.

¹⁰⁶ Oasis Kodila-Tedika and Mihai Mutascu, 'Shadow Economy and Tax Revenue in Africa' (2013) *MPRA Paper No. 50812* 1.

¹⁰⁷ Friedrich Schneider, Andreas Buehn and Claudio E. Montenegro, 'Shadow Economies All over the World: New Estimates for 162 Countries from 1999 to 2007' (2010) *Policy Research Working Paper No. WPS 5356*.

¹⁰⁸ Ibid.

¹⁰⁹ This chart is based on data obtained from Schneider et al, above n 107.

For each type of tax, however, there are different factors—often country-specific—that affect revenue performance. As an example, an individual’s income would certainly be of significance for revenue collected from that tax as it determines the size of the tax base.¹¹⁰ Other factors that may be of importance—in the UK’s context at least—include the number of taxpayers, inflation rate, and oil price.¹¹¹ Whereas for corporations, several factors have been found to be significantly important in affecting corporate income tax revenue, such as tax rate,¹¹² profitability (as has been found in the US),^{113,114,115} and the degree of internationalisation (in the Germany’s corporate income tax regime).¹¹⁶ Other factors such as base broadening, an increase in the size of corporate sector, and profitability of the financial institutions are also of importance for the UK’s corporate tax revenue.¹¹⁷ As for VAT, consumption level—particularly that of household rather than other entities such as government agencies—has been found to significantly affect VAT revenue.¹¹⁸ This certainly is logical as the ultimate VAT burden is borne by individuals. In the end, because an individuals’ consumption primarily depends on their own income, then VAT revenue therefore would largely depend on the size of the GDP per capita.

¹¹⁰ Irena Palić, Ksenija Dumičić and Barbara Grofelnik, 'Analysis of Personal Income Taxation Determinants in Croatia in Long Run: Evidence from Cointegration Analysis' (2017) 63(3) *Naše gospodarstvo* 12.

¹¹¹ Svetlana Ivanitskaya and Ilona V. Tregub, 'Mathematical Model of Income Tax Revenue on the UK example ' (2013) *Forum for Research in Empirical International Trade Working Paper*.

¹¹² Karpowicz, Andrzej and Elzbieta Majewska, 'Corporate Income Tax Revenue Determinants: How Important Is the Tax Rate?' (Paper presented at the 27th International Scientific Conference on Economic and Social Development, Rome, 1-2 March 2018 2018) <https://www.researchgate.net/profile/Arpine_Sargsyan2/publication/325344770_ASSESSMENT_OF_GLOBAL_COMPETITIVENESS_METHODODOLOGY_AND_ITS_IMPLICATION_FOR_EU_AND_EEU/links/5b06e2974585157f870a6724/ASSESSMENT-OF-GLOBAL-COMPETITIVENESS-METHODOLOGY-AND-ITS-IMPLICATION-FOR-EU-AND-EEU.pdf#page=372>.

¹¹³ Auerbach, Alan J. and James M. Poterba, 'Why Have Corporate Tax Revenues Declined?' (1987) 1 *Tax Policy and the Economy* 1.

¹¹⁴ James M. Poterba, 'Why Didn't the Tax Reform Act of 1986 Raise Corporate Taxes?' (1992) 6 *Tax Policy and the Economy* 43.

¹¹⁵ Alan V Douglas, 'Changes in Corporate Tax Revenue' (1990) 38(1) *Canadian Tax Journal* 66.

¹¹⁶ Johannes Becker and Clemens Fuest, 'Internationalization and Business Tax Revenue—Evidence from Germany' (2010) 17(2) *International Tax and Public Finance* 174.

¹¹⁷ Michael Devereux, 'Developments in the Taxation of Corporate Profit in the OECD since 1965: Rates, Bases and Revenues' (2007) *Oxford University Centre for Business Taxation Working Paper (WP 07/04)* 2.

¹¹⁸ Bikas, Egidijus and Emile Andruskaite, 'Factors Affecting Value Added Tax Revenue' (Paper presented at the 1st Annual International Interdisciplinary Conference, Azores, Portugal, 24-26 April 2013) <<https://eujournal.org/index.php/esj/article/download/1230/1239>>.

One aspect that is not mentioned in detail in the studies cited above is the role of tax administration. Although Alonso and Garcimartín imply that tax administration can be important in improving tax revenue collection, their study primarily centres around the effect of foreign aid on tax revenue.¹¹⁹ They conclude that foreign aid may significantly affect tax revenue if it is used to improve the quality of tax administration.

It is this aspect on which this research focusses. With an understanding that there are multiple factors that affect tax revenue collection—as has been shown in the literatures cited previously—this thesis discusses only the administrative side of the Indonesian taxation system, as tax administration carries most of the responsibility for the tax revenue collection mandated by legislation.¹²⁰ The emphasis is on the motivational factors for Indonesian tax administration personnel and how they can be improved. This particular aspect of administration is chosen because human resources have been long recognised as one of the most important tools for value creation within an organisation.¹²¹

As human resources management forms one of the key features in the tax administration reform pilot project, as briefly discussed in Section B and outlined in more detail in Chapter III, this research begins by exploring the views of tax officials who were involved in that project. It then moves on to examine how these views relate to current tax administration. The overall method of inquiry as a way to answer the research questions outlined below is discussed in detail in Chapter IV.

II RESEARCH QUESTIONS

The aim of this research is to shed light on possible weaknesses in the way tax administration is currently managed in Indonesia. To that end, this research uses the pilot project initiated by the IMF—along with other donors such as the AusAID, JICA, the World Bank, and CIDA¹²²—in the 2002 as its starting point.¹²³ Building on the concepts learnt from the pilot project, the research then analyses current tax administration practices. It examines

¹¹⁹ Alonso and Garcimartín, above n 86.

¹²⁰ Matthijs Alink and Victor van Kommer, *Handbook on Tax Administration* (International Bureau of Fiscal Documentation, 2011).

¹²¹ Brian Becker and Barry Gerhart, 'The Impact of Human Resource Management on Organizational Performance: Progress and Prospects' (1996) 39(4) *Academy of Management Journal* 779.

¹²² Rizal, above n 18.

¹²³ Gol, above n 20.

the key principles learnt from the pilot project to obtain key aspects to be taken into account in promoting effective tax administration in the Indonesian context.

This research examines the behaviour and motivational factors of tax administration personnel to determine how the performance of tax officials and the DGT can be improved to maximise revenue collection. It seeks to answer the following question:

Can further improvements be made to the internal management of the Indonesian tax administration to optimise revenue collection by taking into consideration the lessons learnt from the tax administration reform pilot project and the implementation of the tax administration modernisation initiative?

The following sub questions assist in answering the aforementioned question:

1. What aspects of tax administration were essential in the success of the pilot offices?
2. What are the differences between the tax administration applied at the pilot offices and the tax administration currently practised, and why do these differences occur?
In light of this, how can current administration be improved?
3. How should the DGT be managed based on the views of tax officials?

III THESIS ORGANISATION

In answering the research question described in III, this thesis is organised into seven chapters. Following the general introduction in Chapter I, a preliminary review of the Indonesian tax system as well as the contemporary literature on tax compliance and administration is presented in Chapter II. The aim of this chapter is mainly to minimise the potential for going into the field with what Dey refers to as an 'empty head'.¹²⁴

Chapter II first outlines a brief introduction to the overall research strategy taken in this study and then discusses how literature is reviewed under this strategy. It then describes the overall tax administration system in Indonesia as stipulated in Indonesian tax legislation. It serves the purpose of reminding the researcher of—and introducing the reader to—the general approach of Indonesian tax law. This part is essential particularly because the researcher was part of the DGT for more than 15 years, an experience which provided the researcher access to some of the participants as well as other useful resources that would otherwise be unattainable. This chapter then further examines how this Indonesian approach

¹²⁴ Ian Dey, *Grounding Grounded Theory: Guidelines for Qualitative Inquiry* (Academic Press, 1999).

relates to the contemporary literature on tax administration and compliance. Chapter II concludes with the identification of gaps in the literature concerning tax administration reform in the Indonesian context.

The discussion of the literature in Chapter II is followed by a description of Indonesian tax administration in more detail in Chapter III. The purpose of the chapter is to provide a detailed description of tax administration as it applies in Indonesia. It serves the purpose of assisting readers in understanding the context of this study. The chapter commences with a discussion on the historical aspects of the Indonesian taxation system, which is followed by a description of the current administration. The chapter concludes with a discussion on current revenue performance and the latest changes to organisational structure.

After the detailed exploration of the literature in the first three chapters, Chapter IV discusses the research method used to address the research questions and includes a detailed explanation of the worldview adopted in this thesis. In a more technical sense, this chapter also explains participant selection, data collection and analysis and the chosen method for maintaining rigour.

The results of the study are presented and discussed in detail in Chapter V and Chapter VI. Chapter V presents the results of data obtained from participants who were involved in the pilot project. The chapter sheds light on key aspects that contributed to the success of that particular project and presents a model describing the relationship of those aspects. In a similar fashion, Chapter VI provides the results of data analysis focussing on the current administration period, using the findings presented in Chapter V as its starting point. The chapter concludes with a model that describes the relationships among several factors identified in Indonesian tax administration.

Chapter VII summarises and concludes this thesis. The chapter discusses key points presented in the preceding chapters and outlines the limitations of the study. It concludes with a discussion on the future research agenda that emerges from this study.

IV CONTRIBUTIONS

A Theoretical Contributions

This research contributes to the literature—in the Indonesian context—by investigating the key principles of good and effective tax administration. It emphasises how a tax office

should be managed. As such, it adds to the literature, which currently has more focus on the taxpayers' side.

B Practical Contributions

In a practical context, this research explains key aspects that will assist the DGT in meeting its role as a revenue collection agency. This is achieved by bringing together the key aspects of good and effective administration grounded in participants' views as well as some key concepts identified in the contemporary literature. Thus, the recommendations arise from both bottom-up (from the research participants) and top-down (from the literature) approaches. As a result, the recommendations of this research have a sound academic basis and at the same time should have a straightforward practical application.

CHAPTER II

PRELIMINARY LITERATURE REVIEW

I INTRODUCTION

This chapter presents the preliminary literature review for this study on tax administration reform in Indonesia. The main purpose of this chapter is to set scene for the study. The chapter is organised into the following sections:

1. Section I : This section provides the general introduction to this chapter.
2. Section II : This section provides a brief introduction to grounded theory, which is used as the principle method of inquiry in this research. The section first outlines the historical context of this method of inquiry and then briefly explains its main features. The use of this method in the research reported in this thesis is outlined in greater detail in Chapter IV.
3. Section III : This section explores the literature within the context of grounded theory, as the current study mostly uses techniques from grounded theory as its methodology. The section provides a brief discussion on the role of reviewing related literature within the context of this method, as the timing of a literature review in studies using these techniques is often subject to controversy.
4. Section IV : This section positions the study in the Indonesian context. It provides an overview of Indonesia in general, the core of the Indonesian legal system, and the self-assessment system as applied in Indonesia.
5. Section V : This section outlines existing key literatures on tax compliance. It starts from the econometrical approach and moves onto psychological factors in more recent periods. It then links this array of studies with tax administration. The purpose of the section, together with Section IV, is to familiarise the reader with the current taxation system in Indonesia (Section IV) and the body of knowledge

that forms the foundation of that practice (Section V). Chapter II concludes by identifying research gaps in the literature relating to tax administration reform in the Indonesian context, which is pursued as the research topic of this thesis.

The review of the relevant literature reported in this chapter is considered preliminary, with the purpose of maintaining transparency regarding existing literature, which represents a rather limited coverage of the topic. It is common practice in studies using grounded theory to conduct this type of review prior to the commencement of a research study (more details on this are provided in Section 2). The main purpose at this stage was to place the study in the wider context of the existing literature and to identify gaps in the literature before entering the field for data collection. Later on, when the data had been collected and analysed, the literature was again examined to link the empirical findings with more general knowledge. This second stage of literature review updated the preliminary review presented in this chapter. However, as it directly relates to the empirical findings obtained from the field, this review is presented as part of—and therefore woven into the discussion presented in—Chapter V and Chapter VI.

II GROUNDED THEORY: A BRIEF INTRODUCTION

This thesis stems from concerns relating to the apparent inability of the DGT to meet target revenue in the last decade, as outlined in Chapter I. Chapter I also identifies that there is a certain period in the history of the DGT where revenue growth was remarkable. This growth only occurred in the two LTOs as well as the MTO and STOs in Central Jakarta between 2001 and 2005. It is interesting to note that in this same period, the overall revenue nationally, in contrast, declined at the time of the Asian economic crisis in 1997-1998.

This crisis episode also prompted the tax administration reform pilot project, which project was initiated by the IMF as part of its financial assistance for Indonesia. Chapter I also outlined that the project basically consisted of the establishment of several new types of tax offices—covering small, medium and large taxpayers—based on different concepts from the existing organisational system being used in the DGT at that time. It was in these new offices that the remarkable revenue growth occurred.

This thesis aims to understand why this happened and see *what is going on here*. The suitable method of inquiry for such a purpose is the qualitative research method because it

provides a method to present rich descriptions on certain patterns of human behaviour or other social phenomena.¹²⁵ Normally, this method relies on research participants who have first-hand experience of the phenomenon of interest and treats them as experts based on their own experience. Grounded theory methodology can then be used to identify concepts and build theories based on the qualitative data provided by these participants.¹²⁶ Although it often uses interviews and observations, data collected via this method can include a wide array of material such as videos, diaries, internal documents, online postings and historical records.¹²⁷

Grounded theory, according to Charmaz, essentially contains systematic but flexible guidelines to collect and analyse qualitative data with a view of constructing theories.¹²⁸ Theory can mean a set of interconnected concepts that explain a certain phenomenon.¹²⁹ Because the theories are drawn directly from practice, based on data provided by participants with first-hand experience, they will generally work in real-world settings.¹³⁰ This method, therefore, normally produces theories that are, in Oktay's words, 'not too abstract and not too concrete, but just right'.¹³¹ This makes this method suitable for the purpose of this research—as outlined in Chapter I—which endeavours to make a practical contribution.

What makes grounded theory unique is that the researcher does not begin the research process with the existing concepts or theories found in the literature, as is normally done in quantitative studies.¹³² Instead, concepts are derived from data obtained from the field only. As soon as the first data are obtained, they are directly analysed to generate new concepts. These concepts are then used to guide data collection and analysis. New concepts are then acquired by comparing one data point with another through a process called constant comparison. The relationship between these concepts are then analysed and typically illustrated in the form of diagrams. These diagrams are continuously revised and expanded as

¹²⁵ Geraldine Foley and Virpi Timonen, 'Using Grounded Theory Method to Capture and Analyze Health Care Experiences' (2015) 50(4) *Health Services Research* 1195.

¹²⁶ Juliet M. Corbin and Anselm L. Strauss, *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory* (SAGE Publications, 4th. ed, 2015).

¹²⁷ Ibid.

¹²⁸ Kathy Charmaz, *Constructing Grounded Theory, Introducing Qualitative Methods* (SAGE Publications Ltd, 2nd ed, 2014).

¹²⁹ Corbin and Strauss, above n 126.

¹³⁰ Julianne S. Oktay, *Grounded Theory* (Oxford University Press, 2012).

¹³¹ Ibid.

¹³² Corbin and Strauss, above n 126.

new data are obtained. This back-and-forth process between data collection and analysis is in contrast with most quantitative studies where data analysis generally is conducted only after all data are fully collected.

Grounded theory's emphasis on the use of only data, not the literature, to generate concepts means that the researcher at best enters the field without any pre-existing concepts or categories. Thus, the concepts that the researcher obtains from the field are not 'contaminated' by a preconceived framework. To safeguard against such contamination, Glaser and Strauss suggest that the researcher should enter the field without first reviewing the literature.¹³³ However, this may be difficult as researchers bring to the research their existing knowledge obtained as part of their professional development. The challenge thus lies in how to use existing knowledge to enhance, rather than constrain, data analysis.¹³⁴ This is one of the issues that is subject to continuous debate. The position taken regarding the use of the contemporary literature in this thesis is discussed in Section III.

III CHICKEN OR EGG: LITERATURE REVIEW IN A GROUNDED THEORY STUDY

As discussed in more detail in Chapter IV, this thesis relies on grounded theory as the main data analysis method. The place of a literature review under this approach remains a subject of controversy.¹³⁵ Since the publication of Glaser and Strauss's *The Discovery of Grounded Theory*,¹³⁶ which marked the birth of this approach, concerns have been raised as to how the existing literature should be used.¹³⁷ This polemical issue continues to spark debate¹³⁸ as well as being the subject of disputes and misunderstandings.¹³⁹

¹³³ Barney G. Glaser and Anselm L. Strauss, *The Discovery of Grounded Theory: Strategies for Qualitative Research* (Aldine Publishing Company, 1967).

¹³⁴ Corbin and Strauss, above n 126.

¹³⁵ Mohamed El Hussein, Andrea Kennedy and Brent Oliver, 'Grounded Theory and the Conundrum of Literature Review: Framework for Novice Researchers' (2017) 22(4) *The Qualitative Report* 1199.

¹³⁶ Glaser and Strauss, above n 133.

¹³⁷ Antony Bryant and Kathy Charmaz, 'Grounded Theory Research: Methods and Practices' in Antony Bryant and Kathy Charmaz (eds), *The SAGE Handbook of Grounded Theory* (SAGE, 2007) 1.

¹³⁸ Ciarán Dunne, 'The Place of the Literature Review in Grounded Theory Research' (2011) 14(2) *International Journal of Social Research Methodology* 111.

¹³⁹ Charmaz, above n 128.

A literature review generally is required before a study begins to help the researcher rationalise the research question and situate the research within the context of current scientific discourse.¹⁴⁰ Glaser and Strauss, however, believe that conducting a literature review before a study begins is generally a constraining exercise. This is because categories borrowed from existing theories may not be appropriate for the data currently being analysed, making the researcher – according to Glaser and Strauss – force ‘round data into square categories’.¹⁴¹ Further, this causes the researcher to test existing hypotheses, rather than generating a new hypothesis.¹⁴²

To prevent this, Glaser and Strauss advocate that researchers ‘ignore the literature of theory and fact on the area under study to ensure that the emergence of categories will not be contaminated by concepts more suited to different areas’, thereby preventing the imposing of preconceived ideas on the research being conducted.¹⁴³ This allows new theories to emerge naturally from, and therefore be grounded in, the empirical data during data analysis, free from the influence of existing literature or hypotheses that may undermine the focus and authenticity of the research.¹⁴⁴

Glaser and Strauss’s emphasis on theory generation and their insistence on avoiding theoretical contamination can be traced to the fact that grounded theory was developed as a revolt against the quantitative ideology focussing on hypothesis testing that dominated research in sociology in the 1960s, particularly in the US.¹⁴⁵ Qualitative research at that time was often seen as ‘impressionistic, anecdotal, unsystematic and biased’.¹⁴⁶ Glaser and Strauss’s publication was an attempt to provide systematic guidelines for qualitative researchers, thereby making scientific what was often considered mere journalism or fiction.¹⁴⁷

¹⁴⁰ John W. Creswell and Cheryl N. Poth, *Qualitative Inquiry And Research Design: Choosing Among Five Approaches* (SAGE Publications, Inc, 4th ed, 2018).

¹⁴¹ Glaser and Strauss, above n 133, 37.

¹⁴² Roy Suddaby, 'From the Editors: What Grounded Theory Is Not' (2006) 49(4) *The Academy of Management Journal* 633.

¹⁴³ Glaser and Strauss, above n 133.

¹⁴⁴ Dunne, above n 138.

¹⁴⁵ Charmaz, above n 128.

¹⁴⁶ *Ibid.*

¹⁴⁷ Martin Johnson, Tony Long and Alan White, 'Arguments for 'British Pluralism' in Qualitative Health Research' (2001) 33(2) *Journal of Advanced Nursing* 243.

In the ideological context, Glaser and Strauss's position seems to follow the post-positivist stance.¹⁴⁸ In a practical sense, conducting an extensive review of the literature can be a waste of time as literature relevant to the precise research questions may be unknown at the beginning of the study because the research questions may not be fully formulated yet. As such, avoiding a review may save the researcher expending time and energy on activities that may not be fruitful with respect to the topic being investigated.¹⁴⁹ When the literature is consulted at a later stage of the study, it should be woven into the analysis and treated as part of the data.¹⁵⁰ This essentially links the theory resulting from the research with the extant literature and at the same time, provides a validation of the emerging theory.¹⁵¹

It should be noted, however, that delaying the literature review is not the same as skipping it altogether.¹⁵² Although reviewing all relevant literature is generally unnecessary—because it is impossible to know what concepts should be obtained from the data at the beginning of the study¹⁵³—a preliminary literature review should still be conducted as a way to help shape the initial research question¹⁵⁴ and improve theoretical sensitivity.¹⁵⁵ As Dey puts it succinctly, there is a difference between an open mind and an empty head.¹⁵⁶ The issue is how to use existing knowledge to analyse data; not whether this knowledge is used. In this context, a preliminary literature review, rather than jeopardising, may enhance creativity, theoretical sensitivity and rigour.¹⁵⁷ It can also help the researcher to identify themes or categories during data analysis, as long as they are supported by the data.¹⁵⁸

Dunne summarises the benefits of conducting an early literature review as follows:¹⁵⁹

¹⁴⁸ Gerry McGhee, Glenn R. Marland and Jacqueline Atkinson, 'Grounded Theory Research: Literature Reviewing and Reflexivity' (2007) 60(3) *Journal of Advanced Nursing* 334.

¹⁴⁹ Dunne, above n 138.

¹⁵⁰ Lee Yarwood-Ross and Kirsten Jack, 'Using Extant Literature in a Grounded Theory Study: a Personal Account' (2015) 22(4) (Mar) *Nurse Researcher* 18.

¹⁵¹ Tracey Giles, Lindy King and Sheryl de Lacey, 'The Timing of the Literature Review in Grounded Theory Research: An Open Mind Versus an Empty Head' (2013) 36(2) (Apr-Jun) *Advances in Nursing Science* E29.

¹⁵² Suddaby, above n 142.

¹⁵³ Corbin and Strauss, above n 126.

¹⁵⁴ *Ibid.*

¹⁵⁵ Oktay, above n 130.

¹⁵⁶ Ian Dey, *Qualitative Data Analysis: A User-Friendly Guide for Social Scientists* (Routledge, 1993).

¹⁵⁷ Giles, King and Lacey, above n 151.

¹⁵⁸ *Ibid.*

¹⁵⁹ Dunne, above n 138.

1. providing the rationale for the study
2. ensuring that the study has not already been done and highlighting gaps in the existing literature
3. contextualising the study
4. orienting the researcher
5. revealing phenomena previously researched
6. gaining theoretical sensitivity
7. avoiding conceptual and methodological pitfalls
8. becoming aware of unhelpful preconceptions
9. promoting clarity of thinking concerning the concept and theory development
10. helping the researcher avoid open criticism.

In fact, conducting a study without prior knowledge is often unrealistic. Charmaz, for instance, points out that it is naïve to assume that a researcher is a *tabula rasa* (blank slate).¹⁶⁰ The key issue here is how to use the existing knowledge, not whether the knowledge should be used in the data analysis or not.¹⁶¹

Corbin and Strauss in this regard take a different approach. They recognise that researchers may bring existing knowledge to a research study. The question is therefore how to use this existing knowledge to enhance, rather than constrain, the study itself. For this, they suggest that a comprehensive review of all literature in the research area should not occur at the beginning of the research; most of the literature review should come after the study is completed.¹⁶² This is because it is very difficult to know beforehand the concepts that will be derived from the data and their relevance to the research being conducted. They add that being immersed too deeply in the literature may constrain the researcher in their inquiry.

Another approach is to use the literature as a source of identifying research problems as it may point to unexplored areas (gaps), the need for a new approach or findings that contradict the researcher's experience, or may simply stimulate curiosity. As the study

¹⁶⁰ Charmaz, above n 128.

¹⁶¹ Jörg Strübing, 'Research as Pragmatic Problemsolving: The Pragmatist Roots of Empirically-grounded Theorizing' in Antony Bryant and Kathy Charmaz (eds), *The SAGE Handbook of Grounded Theory* (SAGE, 2007) 580.

¹⁶² Corbin and Strauss, above n 126.

progresses, the literature can then be used to stimulate the thinking process.¹⁶³ It can be used to validate the findings and to show how the emerging theory adds to, supports or amends the existing literature. As such, the literature is brought into the findings and integrated into the discussion chapters.¹⁶⁴

Similarly, Charmaz believes becoming familiar with the relevant literature can help the researcher to be more sensitive to nuances in the data, generate concepts for comparisons with the data, stimulate critical and analytical questions and suggest new areas possible for conceptual development.¹⁶⁵ She seems to suggest that a preliminary literature review should be conducted to identify and state the research goals and then let this material 'lie fallow' until the categories and their relationships are fully developed later.¹⁶⁶ As such, a literature review is seen as a two-stage activity. The second stage of literature review takes place when the researcher engages with the existing knowledge and positions the research contribution in a wider context together with the research findings.¹⁶⁷

This thesis adopts a position whereby a preliminary literature review was conducted prior to the commencement of the study. In addition to meeting the university's candidacy proposal requirement, this review was useful for the researcher to prepare the interview guide. This guide—see Appendix III—was mainly used in the initial stage of data collection. Later on, it was amended to cover concepts raised by research participants during the course of data analysis and collection. The bulk of the literature review, however, following Corbin and Strauss's suggestion,¹⁶⁸ was conducted once the field research and data analysis were mostly completed. It is integrated into the discussion chapters with the purpose of mainly validating the findings and contextualising the research contributions within the wider disciplinary discourse. In the following sections, a preliminary literature review is presented together with a brief discussion on the Indonesian taxation system.

¹⁶³ Antoinette McCallin, 'Grappling with the Literature in a Grounded Theory Study' (2003) 15(1-2) (2003/08/01) *Contemporary Nurse* 61.

¹⁶⁴ Corbin and Strauss, above n 126.

¹⁶⁵ Kathy Charmaz, Robert Thornberg and Elaine Keane, 'Evolving Grounded Theory and Social Justice Inquiry' in Norman K. Denzin and Yvonna S. Lincoln (eds), *The SAGE Handbook of Qualitative Research* (SAGE Publications, Inc, 5 ed, 2018) 411.

¹⁶⁶ Charmaz, above n 128.

¹⁶⁷ Giles, King and Lacey, above n 151.

¹⁶⁸ Corbin and Strauss, above n 126.

IV TAXATION SYSTEM IN INDONESIA: THE NEED FOR TAXPAYER COMPLIANCE

A Indonesia: A General Description

To put the discussion regarding the Indonesian taxation system into perspective, it is worthwhile that this section is preceded with a general description on Indonesia. Indonesia is an archipelago country located in South East Asia along the equator line between the Indian and the Pacific Ocean. According to the 2018 edition of the Indonesian statistical year book, Indonesia occupies an area of more than 1.9 million square kilometres—two third of which is sea—with more than 16 thousand islands.¹⁶⁹ This area is recognised as rich in resources such as coal, natural gas, copper, and oil. Indonesia's oil production capacity however is in a continues decline after it reached its highest production in 1991. Since 2003, Indonesia has become a net oil importer as its consumption exceeded production.¹⁷⁰

According to the CIA's World Fact Book, there are more than 237 million people living in this country, making Indonesia the 4th most populated country after China, India, and the United States.¹⁷¹ More than 42% of the population belongs to the productive age group between 25 and 54 years of age. It is also useful to note that Indonesia's population is diverse in term of racial, ethnic and religious affiliation. Indonesia's population is predominantly Muslim (87.2%) followed by Protestant (7%) and Roman Catholic (2.9%). Most of these people are Javanese (40.1%) followed by Sundanese (15.5) and Malay (3.7%). There are also other minority ethnic groups such as Dayak (1.4%), Sasak (1.3%), and Chinese (1.2%). Interestingly, although the members of Chinese ethnic group are small, they apparently hold a significant share in the economy by owning, at least, 70%-75% of private domestic capital.¹⁷² More than 40% of the population concentrates in the island of Java. Its surrounding islands—such as Bali and Sumatra—are also densely populated.

¹⁶⁹ Badan Pusat Statistik, *Statistik Indonesia 2018* (Badan Pusat Statistik, 2018).

¹⁷⁰ Muhammad Badaruddin, 'Indonesia Rejoining Opec: Dynamics of the Oil Importer and Exporter Countries' (2015) 3(2) *Journal of ASEAN Studies* 116.

¹⁷¹ Central Intelligence Agency, *The World Factbook* <<https://www.cia.gov/library/publications/the-world-factbook/geos/id.html>>.

¹⁷² Richard Robison, *Indonesia: The Rise of Capital* (Equinox Publishing (Asia), 2009).

The entity within Gol that is responsible to provide financial support for Indonesia's vast geographical area and diverse population is the Ministry of Finance through its fiscal policy functions. This includes revenue collection and expense payments for both central and local government. For example, as part of the decentralisation, local governments—provinces, districts, or cities—are authorised to levy charges for services that they provide and collect local taxes. However, the contribution of these local taxes and charges towards local governments' revenue is relatively small. For instance, in 2015 local governments in Indonesia were only able to finance approximately 24% of their revenue from local sources.¹⁷³ As a result, the Indonesian central government is required to provide financial assistance in the form of *Dana Bagi Hasil* (Revenue Sharing Fund), *Dana Alokasi Khusus* (Specific Allocation Fund), or *Dana Alokasi Umum* (General Allocation Fund), collectively known as *Dana Perimbangan* (Fiscal Balance Transfer). These are primarily financed using revenues sourced from taxes managed by the central government, such as income tax and VAT. In 2017 for instance, these central taxes account for more than 66% of central government's revenue.¹⁷⁴ The next section describes the Indonesian legal system and how it relates with the overall taxation system.

B The Indonesian Legal System

In term of the legal system, the Indonesian legal system is structured according to a hierarchical approach where a lower level of legislation must be written in accordance with the higher-level legislation (*lex superiori derogate lex inferiori*). As can be seen in Figure II.1, the highest level of legislation is UUD 1945 (the constitution), and the two lowest levels are *peraturan daerah* (local government regulation) at either *provinsi* (provincial), or *kabupaten* (district) and *kota* (municipal) level.

¹⁷³ DJPK, *Visualisasi Data APBD-Grafik* <<http://www.djpk.kemenkeu.go.id/visual/#/grafik>>.

¹⁷⁴ Badan Pemeriksa Keuangan, *Laporan Keuangan Pemerintah Pusat* <<https://www.kemenkeu.go.id/Page/laporan-keuangan-pemerintah-pusat>>.

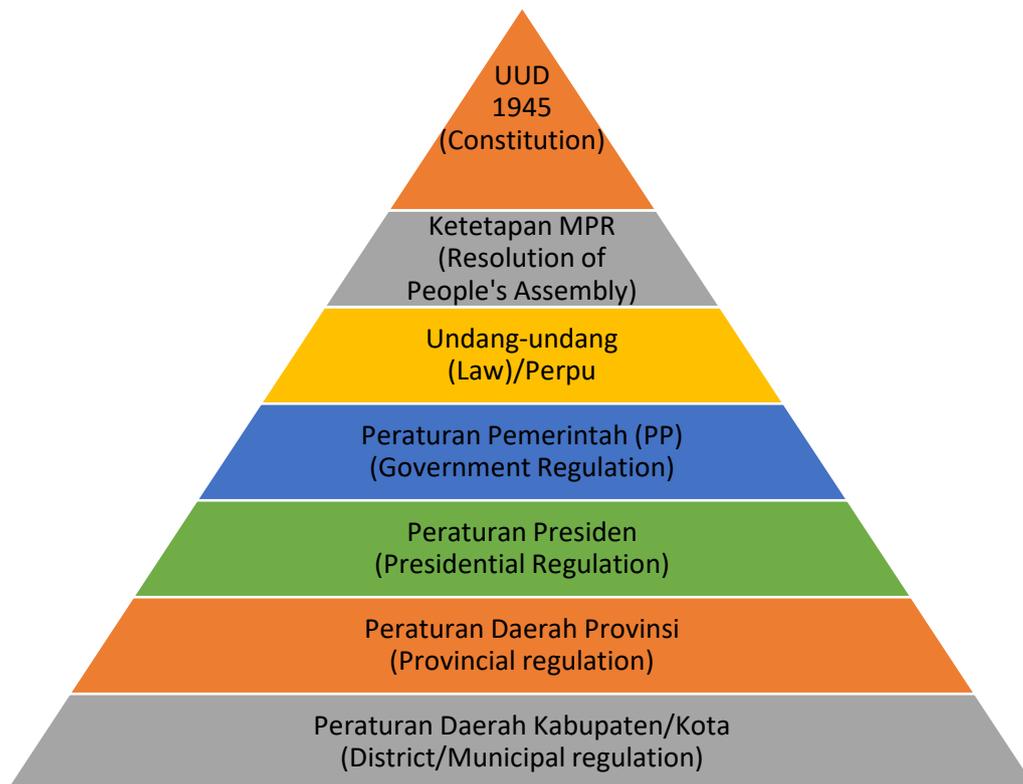


Figure II.1 The Indonesian hierarchical legal system¹⁷⁵

In this research, the lowest relevant legislation is the *peraturan presiden* (presidential regulation). This is because the DGT only administers central government taxes. There are, however, other rules that fall outside Figure II.1 such as *peraturan menteri* (ministerial regulation) or other regulations made by certain agencies specifically formed to implement a certain law. Rules made by the DGT would be an example for this. These rules have a binding power only if they are enacted to make a certain law operational. Let us have a look at how this hierarchical system be applied in the context of taxation laws taking the income taxation system on small business owners as an example.

Article 23A of the Undang-Undang Dasar 1945 (UUD 1945, the 1945 Constitution of the Republic of Indonesia) provides that:

Pajak dan pungutan lain yang bersifat memaksa untuk keperluan negara diatur dengan undang-undang.

(All taxes and other levies for the needs of the state of a compulsory nature shall be regulated by law).

¹⁷⁵ Article 7 of Law No 12 of 2011.

Based on this article, Law No 7 of 1983 (as amended by Law No 36 of 2008) on income tax is enacted. As part of efforts to make it easier for small businesses to pay income tax, the government introduced Government Regulation No 23 of 2018, which enables eligible taxpayers to calculate income tax payable as 0.5% of annual turnover without the need to include a complete set of financial statement. Formal guidelines for the calculation of tax payable, tax payments and tax return lodgement for those who pay income tax under this simplified system are stipulated in a great detail in Minister of Finance Regulation No 99/PMK.003/2018. This Ministry of Finance regulation will not have any binding effect if it violates Government Regulation No 23 of 2018. Similarly, this government regulation would be deemed to have no legal standing if it violates the income tax law. Thus, lower level regulations are specifically written to transform the abstract form of constitution into detailed step-by-step guidelines. The general principle that underpins such guidelines—in the context of taxation—is the self-assessment system, which will be discussed in the following section.

C The Self-Assessment System

Another important law that has been enacted as part of the overall taxation system in Indonesia is the *Ketentuan Umum dan Tata Cara Perpajakan* (KUP, General Tax Provisions law),¹⁷⁶ whose main purpose is as the general formal law applicable to all tax laws, such as income tax or VAT law. Thus, the KUP law contains general administrative provisions that apply in other areas of tax law. It therefore represents the core business that governs Indonesian tax administration.

The first two articles of the KUP law are of significance to the discussion covered in this section. The first article—article 1 number 1—provides a definition of tax as applied in Indonesia as follows:

kontribusi wajib kepada negara yang terutang oleh orang pribadi atau badan yang bersifat memaksa berdasarkan Undang-Undang, dengan tidak mendapatkan imbalan secara langsung dan digunakan untuk keperluan negara bagi sebesar-besarnya kemakmuran rakyat

¹⁷⁶ The KUP law is the main tax administration law in Indonesia. Formally named as Law No 6 of 1983, it has been amended several times lastly in 2009 by Law No 9 of 2009.

(compulsory contribution to the state payable by individuals or other legal entities that is legally enforceable under the law without direct benefits and is used to finance the state's expenses for the maximum benefits of the people).

According to Komara, there are four characteristics of tax in Indonesia that can be inferred from this definition.¹⁷⁷ First, tax is a compulsory contribution made to the government. The term *contribution* is used to reflect the taxpayer's role in Indonesia's governmental process. To a large extent, this is consistent with an assertion that tax has a central role in a democratic society.¹⁷⁸ Second, taxation can be legally enforced with respect to those who are legally required to pay. This definition also carries a notion that tax payment, no matter how large it is, does not necessarily give rise to a certain benefit directly—although indirectly, taxpayers unquestionably have the right to enjoy public services funded by such payments. Last, tax payments in Indonesia are to be used, as much as possible, for the wellbeing of the Indonesian people.

As article 1 requires that taxation can only be enforced with respect to those who are legally required to pay, the next important step would be identifying potential taxpayers. For this purpose, the next article, article 2, of this particular legislation provides that:

Setiap Wajib Pajak yang telah memenuhi persyaratan subjektif dan objektif sesuai dengan ketentuan peraturan perundang-undangan perpajakan wajib mendaftarkan diri pada kantor Direktorat Jenderal Pajak yang wilayah kerjanya meliputi tempat tinggal atau tempat kedudukan Wajib Pajak dan kepadanya diberikan Nomor Pokok Wajib Pajak.

(Every Taxpayer who has met subjective and objective requirements as stipulated by tax laws shall be obliged to register at the office of the Directorate General of Taxes whose jurisdiction covers the residence or domicile of the Taxpayer and be provided with a Taxpayer Identification Number).

Details of the subjective requirements set out in this article can be found in article 2 sub section (1) of the income tax law.¹⁷⁹ This article basically provides that tax subjects may include individuals, undivided inheritances, entities and permanent establishments. The tax

¹⁷⁷ Ahmad Komara, *Cara Mudah Memahami Ketentuan Umum dan Tata Cara Perpajakan (KUP)* (Bee Media Indonesia, 2012).

¹⁷⁸ Richard Murphy, *The Joy of Tax* (Transworld Publishers Limited, 2016).

¹⁷⁹ The income tax law formally referred to as Law No 7 of 1983 as lastly amended by Law No 36 of 2008.

subjects are then categorised further into resident and non-resident taxpayers (article 2 sub section (2)). The remaining sub sections explain this categorisation in detail.

The fact that a person is regarded as a tax subject does not necessarily mean that the person is required to pay any taxes. For this to take place, the person needs to receive what is legally referred to as tax objects; for example, taxable income. Details on such requirements can be found in the relevant tax law; in this case, income tax law. When this event occurs, that particular individual changes from a tax subject to a taxpayer who will then be liable to pay taxes. This also entails an obligation to register as a taxpayer at the local tax office where that person resides. A Nomor Pokok Wajib Pajak (NPWP, Taxpayer Identification Number)¹⁸⁰ will be assigned once the registration process has been completed. Although article 2 sub section (1) of the KUP law provides that this is a formal obligation, the actual process takes place voluntarily as part of the self-assessment activity (elucidation of article 2 sub section (1) of the KUP law).

The taxation cycle in the KUP law always begins with taxpayers themselves, as it is the taxpayers that have the full knowledge of whether they meet these requirements (Figure II.2). The elucidation of Article 2 of the KUP law states that this is the application of the self-assessment principle. James defines that self-assessment generally constitutes a system whereby taxpayers hold the main responsibility for calculating and paying tax payable on time.¹⁸¹ In the Indonesian context, the introduction to the elucidation of the KUP law provides that the self-assessment system includes three distinct activities: calculating tax payable; paying tax payable; and finally, reconciling all tax payments and reporting them using a tax return. The legislation then sets out certain activities related to this process, from registration to tax audit (Figure II.2). This is discussed in more detail in Chapter III.

¹⁸⁰ In Australia, Nomor Pokok Wajib Pajak (NPWP) is equivalent to the Tax File Number (TFN).

¹⁸¹ James, above n 4.

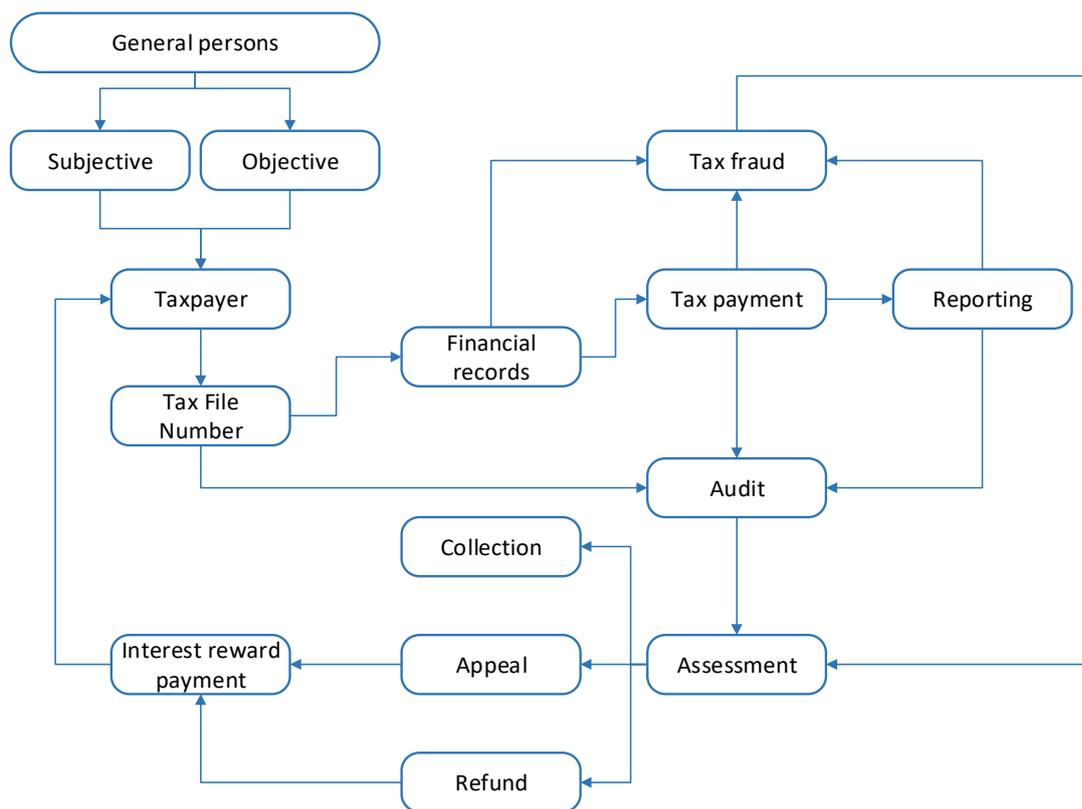


Figure II.2 Self-assessment system in Indonesia¹⁸²

Implementing and enforcing the contents of tax laws, as exemplified in Figure II.2, is the responsibility of a tax administration.¹⁸³ These laws serve as the foundation for the tax administration to carry out its main purpose, which is to raise revenue.¹⁸⁴ For this revenue to generate maximum benefit for the public, it must be collected in an efficient manner, for instance by spending as little as possible on collection costs.¹⁸⁵ For this, voluntary compliance is the key.¹⁸⁶ Voluntary compliance arguably is more efficient compared with enforcement activities, as the latter are more expensive to administer.¹⁸⁷ In fact, voluntary compliance is the cornerstone of the self-assessment system.¹⁸⁸

¹⁸² Agus Suharsono, *Ketentuan Umum Perpajakan* (Graha Ilmu, 2015).

¹⁸³ Alink and Kommer, above n 120.

¹⁸⁴ Chris Evans and Sally-Ann Joseph, 'Tax, Governance and Administration: Challenges and Opportunities in China, Indonesia and Thailand' (2015) 19 *Asia-Pacific Journal of Taxation* 44.

¹⁸⁵ Richard M Bird and Eric M Zolt, 'Tax Policy in Emerging Countries' (2008) 26(1) *Environment and Planning C: Government and Policy* 73.

¹⁸⁶ James Alm, Erich Kirchler and Stephan Muehlbacher, 'Combining Psychology and Economics in the Analysis of Compliance: From Enforcement to Cooperation' (2012) 42(2) *Economic Analysis and Policy* 133.

¹⁸⁷ James Alm et al, 'Rethinking the Research Paradigms for Analysing Tax Compliance Behaviour' (2012) 13(2) *CESifo forum* 33.

¹⁸⁸ Ern Chen Loo and Margaret Mc Kerchar, 'Self-Assessment System in Malaysia' in Nolan Cormac Sharkey (ed), *Taxation in ASEAN and China: Local Institutions, Regionalism, Global Systems and Economic Development* (Routledge, 2012) 97.

However, according to Bird, this system will only result in an increase in compliance if it is supported by an ability of the tax administration to impose justice on those who do not comply with the law.¹⁸⁹ Bird continues that a tax administration will be considered effective if it is able to encourage taxpayers to comply voluntarily. If it can achieve this at the lowest cost possible, then it will be considered an efficient administration. It is therefore imperative that before a tax administration be reformed, the tax system is kept as simple as possible to ensure that it can be implemented effectively, particularly in low-compliance countries.¹⁹⁰

The increase in reliance on self-assessment established in the Indonesian tax legislation is the central focus of the Indonesian taxation legal system, and is also the trend found in similar countries such as Thailand and China.¹⁹¹ Therefore, taxpayer voluntary compliance, as expressed in its mission statement,¹⁹² is the cornerstone of the Indonesian tax administration system, as is also the case in many other tax administrations,¹⁹³ and was indeed a key feature of the tax administration reform project. A report submitted by Brondolo et. al on this project shows that voluntary payments constituted the largest portion of tax revenue during that reform project.¹⁹⁴ However, between 2009 and 2016, following an increase from 18% to 23% between 2005 and 2009, the proportions of voluntary tax payments—particularly those made by corporations—of overall tax payments show a decreasing pattern (Figure II.3).

¹⁸⁹ Richard Bird, 'Administrative Dimensions of Tax Reform' (2014) 15(2) *Annals of Economics and Finance* 269.

¹⁹⁰ Ibid.

¹⁹¹ Evans and Joseph, above n 184.

¹⁹² Director General Decree No KEP-95/PJ/2015.

¹⁹³ Alink and Kommer, above n 120.

¹⁹⁴ Brondolo et al, above n 21.

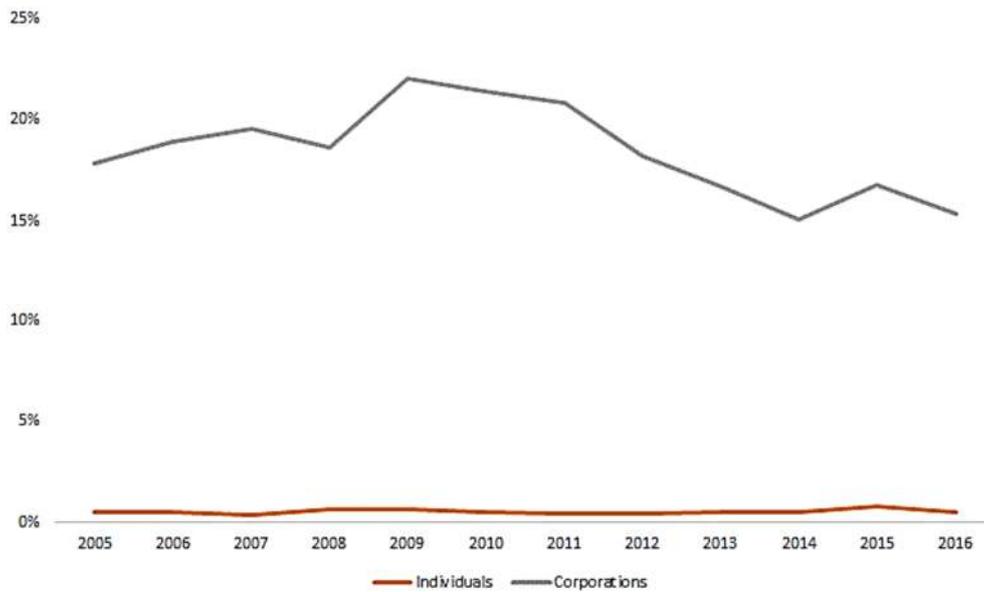


Figure II.3 The proportion of voluntary payments (2005–2016)¹⁹⁵

The decline of the voluntary tax payments could be attributed to a weak administration as well as several other factors, such as the fall of commodity price or the slowdown in the global economy (Figure II.4). The latter is important to note since the decline is particularly visible for corporate taxpayers, which generally are more sensitive to fluctuations in the global economy.¹⁹⁶ This thesis however focuses only on issues related to tax administration.



Figure II.4 World gross product (2008–2018)¹⁹⁷

¹⁹⁵ The chart is based on data obtained from the Central Government of Indonesia’s financial statements 2012-2015 (audited).

¹⁹⁶ This decline for instance can be caused by an increase in non-compliance to minimise costs during unfavourable economic condition. Another example that may explain the revenue decline is that governments in a such economic condition often offer tax incentives—which can negatively affect the overall tax revenue—to companies to stimulate growth. In Indonesia for instance, this can be seen when tax holiday was offered in 2010 under Government Regulation No 94/2010.

¹⁹⁷ United Nations, *World Economic Situation and Prospects 2017* (United Nations, 2017).

Such a decrease would normally be responded by an increased reliance on enforcement activities which generally are not cost efficient, particularly in countries with a corrupt revenue administration.¹⁹⁸ A higher reliance on enforcement activities however undermines the objective of net benefit maximisation, defined as the remaining gross benefits (such as timely tax payments) less total costs borne by tax administration and taxpayers alike, as advocated by Plumley.¹⁹⁹

An example of enforcement activities often taken by the DGT are tax audits. A tax audit can be defined as an examination to see whether taxpayers have assessed and reported their tax liability and met their obligations correctly.²⁰⁰ A tax audit can be conducted either at the DGT—referred to as a desk audit, usually for simple audit scenario—or at the taxpayer's premise—commonly known as a field audit—which usually are geared towards a more comprehensive audit.²⁰¹ Auditors conducting a field audit generally have an authority to take any actions permitted in the tax legislation to complete a full-scale investigation without seeking supervisory approval.²⁰² This type of audit is therefore riskier in term of corruption due to the larger auditors' power and a higher level of interaction with taxpayers being audited.

It should be noted, however, that the audit coverage ratio—that is, the ratio between the number of audited taxpayers and total taxpayers required to lodge a tax return—was 1.67% for entity taxpayers and 0.35% for individual taxpayers in 2015; and 2.00% for entity taxpayers and 0.36% for individual taxpayers in 2016,²⁰³ which according to Gunadi, needs to be increased as it is considered too low to deter non-compliance.²⁰⁴ For context, in 2015 the Internal Revenue Service (IRS) in the United States audited approximately 0.7% of tax returns

¹⁹⁸ Amal Sanyal, 'Audit Hierarchy in a Corrupt Tax Administration' (2000) 28(2) *Journal of Comparative Economics* 364.

¹⁹⁹ Alan H. Plumley, 'A Framework for Optimal Tax Administration' (Paper presented at the 2007 IRS Research Conference, Georgetown University Law Center, Washington D.C., 13-14 June 2007) <<https://www.irs.gov/pub/irs-soi/07resconfplumley.pdf>>.

²⁰⁰ OECD, *Strengthening Tax Audit Capabilities: General Principles and Approaches* <<https://www.oecd.org/tax/administration/37589900.pdf>>.

²⁰¹ Circular Letter No SE-15/PJ/2018.

²⁰² Colin Lethbridge, *Detailed Guidelines for Improved Tax Administration in Latin America and the Caribbean* USAid <https://www.usaid.gov/sites/default/files/LAC_TaxBook_Ch%208%20-%20ENGLISH.pdf>.

²⁰³ Directorate General of Taxes, 'Laporan Kinerja 2016' (Directorate General of Taxes, 2017) <<http://www.pajak.go.id/sites/default/files/LAKIN%20DJP%202016.pdf>>.

²⁰⁴ Gunadi, *Gunadi: Tax Audit Coverage Indonesia Perlu Diperbesar* (4 Agustus 2015) DGT <<http://www.pajak.go.id/content/article/gunadi-tax-audit-coverage-indonesia-perlu-diperbesar>>.

lodged by individual taxpayers and 1.1% lodged by corporations.²⁰⁵ Whether increasing the number of audits will improve taxpayer compliance has been subject to debate in the literature. The next section discusses tax compliance and provides an overview of the current literature on why people pay taxes.

V TAX COMPLIANCE: A BRIEF REVIEW

I don't know anybody that doesn't minimise their tax. ... Of course, I'm minimising my tax. If anybody in this country doesn't minimise their tax, they want their head read.

(Kerry Packer)²⁰⁶

The key feature of a tax system that relies on the self-assessment system is ensuring taxpayer compliance. In its simplest form, compliance can be defined as the extent to which taxpayers comply with tax legislation.²⁰⁷ Its true meaning however can be viewed from several perspectives, ranging from the narrow enforcement approach to a more comprehensive definition with regards to the willingness of taxpayers to conform to the objectives of society as codified in the tax legislation.²⁰⁸ Nevertheless, the definition of compliance can be classified into two groups:²⁰⁹

1. Administrative compliance, which generally refers to the administrative compliance such as lodging tax returns and paying taxes on time.
2. Technical compliance, which calls for taxpayers to pay their fair share of tax correctly in accordance with the applicable legislation.

Voluntary compliance, as stated in Section IV, is the key feature of the Indonesian taxation administration system. It has in fact become part of its mission statement. Voluntary compliance is the focus of a tax administration system that adheres to the self-assessment system.

²⁰⁵ Internal Revenue Service, 'Data Book, 2016' (Internal Revenue Service, 2016) <<https://www.irs.gov/pub/irs-soi/16databk.pdf>>.

²⁰⁶ Stephanie Peatling, *Corporate Tax Inquiry: Kerry Packer's Infamous Committee Appearance Serves as a Cautionary Tale* (9 April 2015) The Sydney Morning Herald <<https://www.smh.com.au/politics/federal/corporate-tax-inquiry-kerry-packers-infamous-committee-appearance-serves-as-a-cautionary-tale-20150408-1mgfaq.html>>.

²⁰⁷ James, above n 4.

²⁰⁸ Simon James and Clinton Alley, 'Tax Compliance, Self-Assessment and Tax Administration' (2002) 2(2) *Journal of Finance and Management in Public Services* 27.

²⁰⁹ OECD, *Compliance Measurement – Practice Note* OECD <<https://www.oecd.org/tax/administration/1908448.pdf>>.

In the Indonesian context, the self-assessment system has been established in Indonesian tax law as the key feature of the Indonesian tax administration system. As the key responsibility of tax administration is to implement and enforce tax laws, it is in their best interests to maintain and reinforce taxpayers' willingness to comply with tax laws as voluntarily as possible. Indeed, voluntary compliance is the most efficient way to collect tax revenue. And because tax is the main instrument for governments to raise revenue, as can be seen in Indonesia (see Chapter I), tax is central to the creation of a good government.²¹⁰ This is because politically, tax is a necessary instrument to ensure the continuity of the check-and-balance mechanism in a democratically-elected government as governments require the consent of taxpayers before they can impose taxes.

Although taxes can be seen as normal and are generally accepted as normal transactions provided that they are collected fairly,²¹¹ they may not be popular. Thomas Aquinas, for instance, states that tax is legalised theft.²¹² Not many people like to pay taxes, especially when they are collected coercively.²¹³ The American revolution, for instance, was triggered by the imposition of tax, which popularised the phrase 'no taxation without representation'.^{214,215} Taxes can also be unpopular if there is a widespread belief in the community that tax money is being wasted, the tax system favours special interests and the well-off (perhaps in the form of tax cuts or incentives) or there is widespread evasion or avoidance.²¹⁶ This can be seen, for instance, in the events following a major case of tax corruption involving Gayus Tambunan, who—when the case was uncovered in 2010—was an Indonesian tax office employee. Not long after this case was revealed, there was a Facebook movement advocating not paying taxes.²¹⁷ Two years later, the Nahdlatul Ulama (NU)—the largest Muslim organisation in Indonesia—had similar thoughts, announcing their intention to

²¹⁰ Murphy, above n 178.

²¹¹ Ian A. McAuley and Miriam Lyons, *Governomics: Can We Afford Small Government?* (Melbourne University Press, 2015).

²¹² Erich Kirchler and Erik Hoelzl, *Economic Psychology: An Introduction* (Cambridge University Press, 2017).

²¹³ Alm, Kirchler and Muehlbacher, above n 186.

²¹⁴ This phrase is reported to appear initially in the headline of the February 1768 edition of the *Londong Magazine* in its printing of Lord Camden's 'Speech on the Declaratory Bill of the Sovereignty of Great Britain over the Colonies' on page 89.

²¹⁵ David F. Burg, *A World History of Tax Rebellions: An Encyclopedia of Tax Rebels, Revolts, and Riots from Antiquity to the Present* (Routledge, 2004).

²¹⁶ McAuley and Lyons, above n 211.

²¹⁷ *Gerakan Tolak Pajak Tidak Akan Ditindak* (27 March 2012) Viva <<https://www.viva.co.id/berita/nasional/139593-gerakan-tolak-pajak-tidak-akan-ditindak>>.

consider the possibility of recommending that Indonesian citizens not pay their taxes, as a way of minimising tax revenue abuse.²¹⁸ This conduct makes efforts to encourage taxpayer voluntary compliance more difficult.

Researchers have been examining this issue by first using an econometric approach on criminal behaviour.²¹⁹ Becker, in essence, advanced the argument that any criminal behaviour can generally be reduced if such behaviour can be discovered and then penalised. Any criminal activity, according to Becker, generally comes with associated costs. A rational person committing a crime generally weighs its benefits against its costs. If the expected costs are higher than the benefits, then the potential offence will logically not be committed. This is because either the probability of suffering from the penalty, or the penalty itself, increases.²²⁰

This principle is then applied in the field of taxation by Allingham and Sandmo.²²¹ Their argument is based on an assumption that taxpayers are rational, in a sense that they tend to maximise their profit. The basic belief is that individuals choose to act against the rule of law because they believe that doing so serves their best interests.²²² Thus, it is assumed that taxpayers will likely evade taxes if they believe that the benefits of doing so outweigh the costs. Taxpayers always have a choice to either report their income in full or declare an income that is less than their actual income. Allingham and Sandmo generally see a taxpayer's decision when completing their tax return as a decision under uncertainty. This is because failure to report their income in full does not automatically trigger a penalty. If a taxpayer successfully hides some income without being detected, then they are in a better situation compared with when their income is reported in full.

Allingham and Sandmo further argue that, in line with Becker's conclusion, probability of detection and penalty rate are the two factors that have an unambiguous influence on the

²¹⁸ *NU Calls on Members to Stop Paying Taxes* (17 September 2012) The Jakarta Post <<http://www.thejakartapost.com/news/2012/09/17/nu-calls-members-stop-paying-taxes.html>>.

²¹⁹ Gary S. Becker, 'Crime and Punishment: An Economic Approach' (1968) 76(2) *Journal of Political Economy* 169.

²²⁰ The number of criminal offences interestingly may also potentially be reduced by legalising abortion, as discussed in John J. Donohue III and Steven D. Levitt, 'The Impact of Legalized Abortion on Crime' (2001) 116(2) *The Quarterly Journal of Economics* 379.

²²¹ Michael G. Allingham and Agnar Sandmo, 'Income Tax Evasion: A Theoretical Analysis' (1972) 1(3) *Journal of Public Economics* 323.

²²² Michael Ilg, 'Profit, Persuasion, and Fidelity: Why People Follow the Rule of Law' (2017) 10(2) *Law and Development Review* 275.

amount of reported income. An increase in either or both will increase the amount of reported income; accordingly, a decline in either of these factors will result in an increase in tax evasion. This is because as the expected cost of evasion decreases, the overall expected benefit of evasion increases. This strategy will generally be preferred by a taxpayer under the rationality assumption made by Allingham and Sandmo.

In contrast, although the rich may be more prone to evasion due to the higher benefits obtained by becoming less compliant,²²³ the effects of tax rate and income are less certain. An increase in these factors may either reduce or raise the amount of reported income, depending on a taxpayer's willingness to take the associated risk of being detected and hence penalised. A risk-averse taxpayer will normally choose not to commit tax evasion because of the possibility of being penalised. However, according to Rosen and Gayer, it is also possible for a taxpayer to evade more as the benefits of evasion increase because of the increase in tax rate or income,²²⁴ as might be the case in Indonesia.²²⁵

Since the publication of their study, a number of attempts to test the variables presented by these two authors have been made. However, the findings of subsequent studies suggest that the standard econometrical approach may not be supported by strong empirical evidence.²²⁶ Erich Kirchler et al provide a summary of these studies, concluding that most of the parameters offered in the econometrical model seem to be unstable and their effects on compliance are unclear. For instance, it is difficult to draw from the studies whether it is high or low-income earners who are more likely to evade taxes. The effect of tax rate seems to follow a similar pattern, although the studies under review mostly suggest that a higher tax rate tends to lead to higher rate of tax evasion, possibly because of the higher tax saving as a result of the evasion.²²⁷ Among the parameters examined in the studies, it is only audit

²²³ Hector Solaz and Raymond Duch, 'Why We Cheat. Experimental Evidence on Tax Compliance' (2015) *Centre for Experimental Social Sciences, Nuffield College, University of Oxford Working Paper*.

²²⁴ Harvey S. Rosen and Ted Gayer, *Public Finance* (McGraw-Hill Irwin, 8th ed, 2008).

²²⁵ Puri Mahestyanti, Bambang Juanda and Lukytawati Anggraeni, 'The Determinants of Tax Compliance in Tax Amnesty Programs: Experimental Approach' (2018) 17(1) *Etikonomi*

²²⁶ Erich Kirchler et al, 'Why Pay Taxes? A Review of Tax Compliance Decisions' in James Alm, Jorge Martinez-Vazquez and Benno Torgler (eds), *Developing Alternative Frameworks for Explaining Tax Compliance* (Routledge, 2010) 15.

²²⁷ Rosen and Gayer, above n 224, 374.

probability and penalty rate that seem to have a clear-cut effect on taxpayer compliance,²²⁸ albeit with an insubstantial magnitude. Of these two factors, it is suggested by the studies under review that audit probability is considered more important in shaping taxpayer compliance.

It is, however, important to note that the positive effect may not be sustainable in the long run. It is true that audits may reduce the rate of tax evasion, but it will only remain so until a certain level is reached. Once this level is reached, further audit will only increase evasion. Hence, these subsequent audits may in fact backfire.²²⁹ This may be because taxpayers may soon decide not to comply once an audit is completed, as they believe that it is unlikely they will be subject to a different audit immediately—a reaction often referred to as the ‘bomb crater effect’.²³⁰ This can be seen, for instance, in research reported by Beer et al where audits can immediately increase the amount of reported income. They find that three years after an audit that results in an additional tax assessment being conducted, taxpayers on average report 120% higher income.²³¹ However, the findings also include that when the audit does not result in additional tax being paid, the amount of income reported by the latter group of taxpayers in subsequent years tends to decrease.

Nevertheless, increasing audits may not be the best choice for tax administrators as this tends to be costlier; frustrate normal business activities; and put more compliance burden on taxpayers.²³² As a result, the numbers of taxpayers who are subject to audit are generally low. As a consequence, according to Allingham and Sandmo’s model, tax evasion should be widespread.²³³ However, this seems to not always be the case. In fact, studies on the effect of audit probabilities on compliance have shown inconsistent findings, ranging from a failure to

²²⁸ Diego Escobari, 'Imperfect Detection of Tax Evasion in a Corrupt Tax Administration' (2012) 12(4) *Public Organization Review* 317.

²²⁹ Juan P. Mendoza, Jacco L. Wielhouwer and Erich Kirchler, 'The Backfiring Effect of Auditing on Tax Compliance' (2017) 62 (2017/10/01) *Journal of Economic Psychology* 284.

²³⁰ Luigi Mittone, 'Dynamic Behaviour in Tax Evasion: An Experimental Approach' (2006) 35(5) *The Journal of Socio-Economics* 813.

²³¹ Sebastian Beer et al, 'Do Audits Deter Future Noncompliance? Evidence on Self-Employed Taxpayers' (Paper presented at the 6th Annual IRS-TPC Joint Research Conference on Tax Administration, Urban Institute in Washington, DC, 23 June 2016) <<https://www.irs.gov/pub/irs-soi/16resconkirchler.pdf>>.

²³² Alink and Kommer, above n 120.

²³³ Erich Kirchler, Christoph Kogler and Stephan Muehlbacher, 'Cooperative Tax Compliance: From Deterrence to Deference' (2014) 23(2) *Current Directions in Psychological Science* 87.

detect such a relationship to proving its effectiveness.²³⁴ As an example, Kleven et. al provide evidence that improving audit probability has a positive effect on taxpayer compliance.²³⁵ Their study reveals substantial evidence for tax evasion, particularly on income that is not subject to an extensive third-party reporting system, such as that earned by self-employed people. In contrast, the evasion level is significantly lower for income that is subject to a third-party report. Similarly, improved compliance can also be observed when taxpayers perceive a higher probability of being audited, as inferred either from prior audits or a threat-of-audit letter. Similarly, an experiment conducted by Prasetyo and Sinaga in the Indonesian context provides an indication that audit rate has a significant effect on compliance.²³⁶

However, despite the low audit coverage rate—for instance, the IRS in the United States audited only 0.6% of tax returns lodged in 2015²³⁷—Alm, McClelland and Schulze find that taxpayer compliance remains higher than predicted by the econometric model.²³⁸ This reveals that it is indeed true that as the probability of being audited increases, the taxpayer compliance level also increases. However, the relationship is not linear because the increase in compliance decreases as the probability of detection increases. Audits are only able to improve compliance to a certain level, after which more audits would in fact translate into an increase in tax evasion, indicating that the audits may backfire.²³⁹ In fact, it has been revealed that increasing audit probability will be successful for improving compliance of filers, but fails to affect filing behaviour. This suggests that increasing audits generally will not encourage non-filers to change their existing behaviour.²⁴⁰ This essentially means that more audit is not necessarily better.²⁴¹ As such, an effort to improve compliance by relying on strategies that mainly use

²³⁴ Carol M. Fischer, Martha Wartick and Melvin M. Mark, 'Detection Probability and Taxpayer Compliance: A Review of the Literature' (1992) 11 *Journal of Accounting Literature* 1.

²³⁵ Henrik Jacobsen Kleven et al, 'Unwilling or Unable to Cheat? Evidence From a Tax Audit Experiment in Denmark' (2011) 79(3) *Econometrica* 651.

²³⁶ Kristian Agung Prasetyo and Suhut Tumpal Sinaga, 'Tax Compliance: An Experimental Approach' (2017) 1(1) *Hasanuddin Economics and Business Review* 27.

²³⁷ Internal Revenue Service, above n 205.

²³⁸ James Alm, Gary H. McClelland and William D. Schulze, 'Why Do People Pay Taxes?' (1992) 48(1) *Journal of Public Economics* 21.

²³⁹ Mendoza, Wielhouwer and Kirchler, above n 229.

²⁴⁰ James Alm, Kim M. Bloomquist and Michael McKee, 'When You Know Your Neighbour Pays Taxes: Information, Peer Effects and Tax Compliance' (2017) 38(4) *Fiscal Studies* 587.

²⁴¹ Mendoza, Wielhouwer and Kirchler, above n 229.

audits and punishments to deter evasion may not be adequate because rather than increasing it voluntary compliance, it may reduce it.²⁴²

In terms of the effect of penalties on compliance, Allingham and Sandmo's model in essence predicts that an increase in the severity of penalties normally improves compliance, as the cost of committing non-compliance behaviour becomes higher.²⁴³ This generally gives rise to efforts by tax authorities to extensively monitor taxpayers; apply hefty penalties and sanctions to wrongdoers; and remove avenues for taxpayers to engage in non-compliant activities²⁴⁴—a policy choice generally favoured by tax authorities.²⁴⁵ In the Indonesian context, experiments conducted by Juanda²⁴⁶ and later Prasetyo and Sinaga²⁴⁷ provide supporting evidence, although the effect of conducting more audits in reducing tax evasion may be limited.²⁴⁸ Such traditional tools of enforcements have been suggested to have only a limited effect on taxpayer compliance²⁴⁹ because of their small deterrent effect.²⁵⁰ In fact, in a different setting, introducing monetary penalty, rather than improving compliance, may worsen it,²⁵¹ particularly when the monetary penalty is seen as a way to compensate and rationalise wrongdoing rather than as a punishment for social or moral standards violations.²⁵² Fines that are perceived to be too high or are imposed inappropriately, according to Kahneman and

²⁴² Michael Pickhardt and Aloys Prinz, 'Behavioral Dynamics of Tax Evasion – A Survey' (2014) 40 *Journal of Economic Psychology* 1.

²⁴³ Allingham and Sandmo, above n 221.

²⁴⁴ Michael Hallsworth, 'New Ways of Understanding Tax Compliance: From the Laboratory to the Real World' in Alan Lewis (ed), *The Cambridge Handbook of Psychology and Economic Behaviour* (Cambridge University Press, 2nd ed, 2018) 430.

²⁴⁵ Lars P. Feld and Claus Larsen, 'Self-Perceptions, Government Policies and Tax Compliance in Germany' (2012) 19(1) *International Tax and Public Finance* 78.

²⁴⁶ Bambang Juanda, *Ekonomi Eksperimental Untuk Pengembangan Teori Ekonomi Dan Pengkajian Suatu Kebijakan* Institut Pertanian Bogor <https://bbjuanda.files.wordpress.com/2010/09/270910_orasi-bambang-juanda1.pdf>.

²⁴⁷ Prasetyo and Sinaga, above n 236.

²⁴⁸ Jacqueline Arandse, 'Is the penalty system in South Africa an effective and efficient deterrent to tax evasion?' in Jonathan Mendel and John Bevacqua (eds), *International Tax Administration: Building Bridges* (CCH Australia Limited, 2010) 61.

²⁴⁹ Arindam Das-Gupta, Radhika Lahiri and Dilip Mookherjee, 'Income Tax Compliance in India: An Empirical Analysis' (1995) 23(12) *World Development* 2051.

²⁵⁰ James Alm, 'Measuring, Explaining, and Controlling Tax Evasion: Lessons From Theory, Experiments, and Field Studies' (2012) 19(1) *International Tax and Public Finance* 54.

²⁵¹ Uri Gneezy and Aldo Rustichini, 'A Fine is a Price' (2000) 29(1) *The Journal of Legal Studies* 1.

²⁵² Tim Kurz, William E. Thomas and Miguel A. Fonseca, 'A Fine Is A More Effective Financial Deterrent When Framed Retributively And Extracted Publicly' (2014) 54 *Journal of Experimental Social Psychology* 170.

Tversky, might tempt taxpayers to try harder to engage in riskier evasion efforts to recover what are considered losses due to excessive fines.²⁵³

The administration's responsibility, nevertheless, is not simply to enforce compliance; rather, it must pursue the fostering of compliance.²⁵⁴ The use of deterrence may be effective in improving compliance only in the short run,²⁵⁵ particularly when taxpayers are not always amoral and utility-maximising individuals.²⁵⁶ In fact, most taxpayers are honest and generally are willing to pay their fair share of tax,²⁵⁷ as depicted by Braithwaite in her compliance model.²⁵⁸ Further, not only does the econometrical model fail to produce accurate predictions,²⁵⁹ its effectiveness in the long run may be questionable. As a result, it is important to consider factors outside these classical economic factors, for several reasons.²⁶⁰ First, it is generally expensive to conduct actual enforcement activities with results that are normally effective in improving compliance in the short run at best. Second, intensively conducting enforcement based on deterrence approaches may result in confrontation with taxpayers. This normally is undesirable, as it will only increase resistance and reduce compliance. Last, there are issues that make it more difficult for taxpayers to comply, such as the complexity of tax rules, which generally influences their compliance costs as well. In short, as Alm suggests, in terms of paying taxes, 'there is a "full house" of behaviors motivated by a "full house" of considerations' that need to be considered carefully,²⁶¹ as there are other factors, such as social norms and perception of fairness, that need to be considered as well.²⁶² Table II.1 provides a list of these factors. Some may need the tough nature of the *stick of enforcement* while for others, this approach may not work and will only damage their motivation to pay taxes.²⁶³

²⁵³ Daniel Kahneman and Amos Tversky, 'Prospect Theory: An Analysis of Decision under Risk' (1979) 47(2) *Econometrica* 263.

²⁵⁴ Bird, above n 189.

²⁵⁵ Giulia Mascagni, 'From the Lab to the Field: A Review of Tax Experiments' (2017) *Journal of Economic Surveys* 1.

²⁵⁶ Erich Kirchler, 'Differential representations of taxes: Analysis of free associations and judgments of five employment groups' (1998) 27(1) *The Journal of Socio-Economics* 117.

²⁵⁷ Erich Kirchler, *The Economic Psychology of Tax Behaviour* (Cambridge University Press, 2009).

²⁵⁸ Valerie Braithwaite, 'A New Approach to Tax Compliance' in Valerie Braithwaite (ed), *Taxing Democracy* (Ashgate, 2003) 1.

²⁵⁹ Nigar Hashimzade, Gareth D. Myles and Binh Tran-Nam, 'Applications of Behavioural Economics to Tax Evasion' (2012) *Journal of Economic Surveys* 941.

²⁶⁰ Mascagni, above n 255.

²⁶¹ Alm, above n 250.

²⁶² Ibid.

²⁶³ Alm, Kirchler and Muehlbacher, above n 213.

Although deterrence seems to remain the main mechanism in addressing non-compliance, at least in the US context,²⁶⁴ it seems that compliance cannot be explained satisfactorily through the use of enforcement alone.²⁶⁵ Deterrence in short is a necessary, albeit not sufficient, condition to shape taxpayer compliance.²⁶⁶ As Table II.1 indicates, taxpayer compliance behaviour is more than simply a calculation of benefit maximisation as pursued by the standard econometrical approach. It fails to take into account the sociological and psychological factors that may shape compliance.²⁶⁷ A simple example can be seen in cases where people tend to choose an option that enables them to avoid losses over an option that requires them to take additional risks to obtain exactly the same amount.²⁶⁸ In short, when faced with a possibility of suffering losses, people generally tend to be willing to take more risks as an attempt to cover those losses. People tend to like winning and dislike losing; certainly, they dislike losing more than they like winning. As Kahneman puts it, losing \$900 is more painful than 90% of the pain of losing \$1,000.²⁶⁹

Table II.1 Factors influencing tax compliance²⁷⁰

Perspective	Conclusions from research
Economic determinants	
Frequency of audit	A higher probability encourages compliance, and a subjective probability appears to have more effect on compliance than an objective probability.
Fine	A higher fine has some deterrent effect.
Marginal tax rate	A higher marginal tax rate has an ambiguous effect on compliance.
Income	A higher income has an ambiguous effect on compliance.
Opportunity to avoid or to evade taxes	The self-employed with ample opportunities to evade are likely to be less compliant than taxpayers with more limited opportunities.
Psychological determinants	
Complexity of tax law	Tax laws are too complicated and compliance is thus difficult, even if desired.
Attitudes	Attitudes are often treated as the source of tax morale.
Personal norms	Internalised values (i.e., the personal tendency to obey laws) affect compliance.
Social norms	The norms and values in a social setting affect compliance.

²⁶⁴ Joel Slemrod, 'Tax Compliance and Enforcement: New Research and Its Policy Implications' (2016) *Ross School of Business, University of Michigan, Paper No. 1302*.

²⁶⁵ James Alm, 'What Is An "Optimal" Tax System?' (1996) 49(1) *National Tax Journal* 117.

²⁶⁶ Jerome Olsen, Minjo Kang and Erich Kirchler, 'Tax Psychology' in Alan Lewis (ed), *The Cambridge Handbook of Psychology and Economic Behaviour* (Cambridge University Press, 2nd ed, 2018) 405.

²⁶⁷ Larissa-Margareta Bătrâncea et al, 'Tax Compliance Models: From Economic to Behavioral Approaches' (2012) 8(36) *Transylvanian Review of Administrative Sciences* 13.

²⁶⁸ Kahneman and Tversky, above n 253.

²⁶⁹ Daniel Kahneman, *Thinking, Fast and Slow* (Allen Lane, 2011).

²⁷⁰ Alm, Kirchler and Muehlbacher, above n 186.

Perspective	Conclusions from research
Societal norms	The norms and values of a society as a whole affect compliance.
Distributive justice	Compliance is affected by horizontal equity (i.e., an individual's tax burden relative to others with equal income), vertical equity (i.e., an individual's tax burden relative to those with more or less ability to pay) and exchange fairness (i.e., an individual's tax burden relative to the receipt of public goods financed by tax revenues).
Procedural justice	The fairness of the procedures for making tax-relevant decisions (e.g., having a voice in policy making, transparency, consistency, neutrality, fairness of interaction between authorities and taxpayers) affects compliance.
Retributive justice	The fairness of the form and severity of the punishment imposed on tax offenders affects compliance.

In the taxation context, when a taxpayer's business is being threatened by the tax office, perhaps in the form of a large tax bill, that taxpayer is more likely to engage in risky confrontation with the tax office as a way to safeguard their interests against losses. Once this step has been taken, the taxpayer will most likely continue taking a similar route in their future dealings with the tax office.²⁷¹ Another important factor to examine is the role of authorities (Figure II.5).

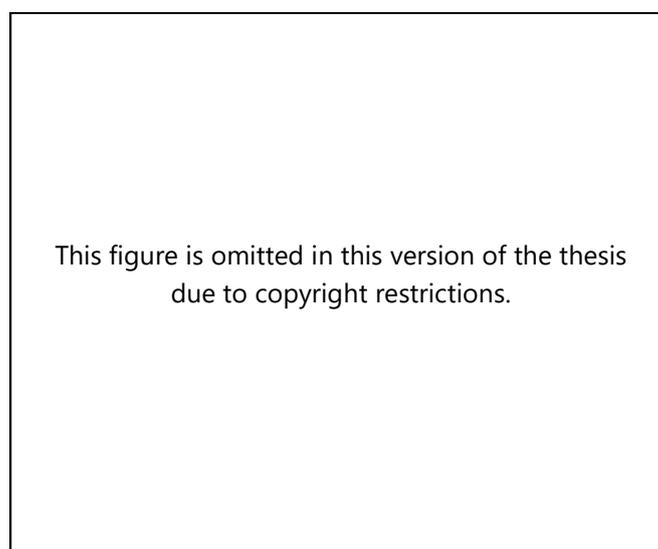


Figure II.5 Parties in the taxation climate²⁷²

It has been suggested that in certain countries, there may be a link between taxation and democracy in a sense that taxes can only be imposed with the consent of the people (the application of this principle in the Indonesian context is presented in Chapter III).²⁷³ This

²⁷¹ Alink and Kommer, above n 120.

²⁷² Alm, Kirchler and Muehlbacher, above n 186.

²⁷³ Murphy, above n 178, 27.

manifests in the tax legislations enacted by members of parliament—working in concert with the government—who are democratically elected by the people through an election. Once passed, it is normally the responsibility of a tax authority to put these tax legislations into practice.²⁷⁴ Taxpayers, therefore, comply because they have given their consent through their representatives. Following the same logic, thus, taxpayers may find it logical to be non-compliant if taxes are imposed by non-representative authorities, due to a lack of respect and legitimacy. This in turn may trigger taxpayers' resistance.²⁷⁵

It is therefore clear that there is a need for a framework to integrate these factors. One interesting proposal for such a framework is proposed by Kirchler, Hoelzl and Wahl.²⁷⁶ In a model they name the 'slippery-slope framework', the role of tax authorities is clearly recognised. They posit that taxpayer compliance is shaped by trust in tax authorities and the power of tax authorities (Figure II.6).

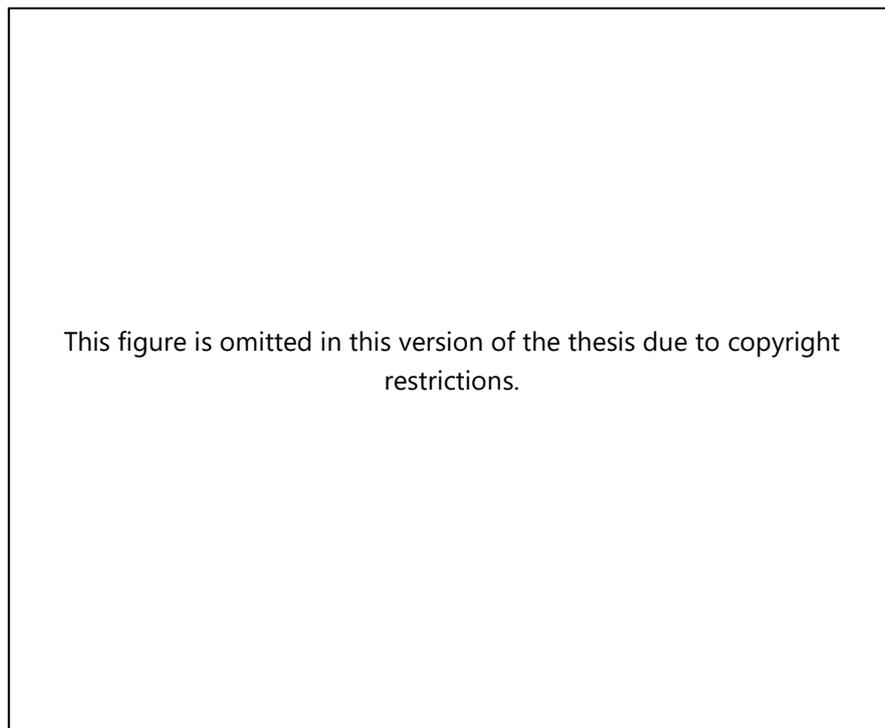


Figure II.6 The slippery-slope framework²⁷⁷

²⁷⁴ Alink and Kommer, above n 120.

²⁷⁵ Natalie Taylor, 'Taxpayers Who Complain About Paying Tax: What Differentiates Those Who Complain From Those Who Don't?' (2001) 9 *Centre for Tax System Integrity, Research School of Social Sciences, Australian National University*.

²⁷⁶ Kirchler, Hoelzl and Wahl, above n 56.

²⁷⁷ Ibid.

On the left side of Figure II.6, the model shows that taxpayer compliance is influenced by the power of authorities. The power of authorities in this model generally refers to the perception of the extent to which an act of tax evasion conducted by a particular taxpayer might be detected, perhaps through frequent and thorough audits, and for that evasion to be subsequently punished, for instance by imposing a significant fine. When the power of authorities is low at the right end of the continuum, where trust in authorities is low as well, it can be seen that taxpayer compliance is at the lowest point. This means that many taxpayers engage in tax evasion games. Tax authorities may respond to this by conducting more audits and closing loopholes found in legislation. They may also conduct more intensive data exchange with their partners. This moves the power of authorities to a particular point away from the lowest point at the right end of the continuum. This, as a result, increases compliance. Note, however, that the resulting increase is the result of enforcement activities, named in this model as enforced tax compliance.

It is also possible to improve taxpayer compliance without tampering with enforcement switches. On the right side of Figure II.6, compliance is also shaped by taxpayers' trust in tax authorities. Trust in this context means the general opinion of the public that the tax authorities act for the benefit of the common good. If this element of trust can somehow be pushed to the right, then taxpayer compliance will accordingly rise. However, the resulting compliance in this case is not a result of enforcement activities conducted by the tax office; rather the compliance is voluntary in nature.

The model therefore implies that high compliance can be achieved either in a condition where strong power of authorities is evident or in the situation where there is high trust in the authorities. The resulting compliance nevertheless is different in nature. Strong power of authorities results in enforced compliance, while high trust is more associated with voluntary compliance. Varying the magnitude of power would yield a significant effect towards compliance if trust is low. If trust is already high, then there is no point in exercising more enforcement, as taxpayers are already willing to pay their share of tax without the need for enforcement. Conversely, variation in trust would matter most in a situation where power is low. Moreover, in an environment where enforcement is at the maximum level, the element of trust becomes irrelevant.

It should be noted, however, that power can influence trust. An excessive use of power can be viewed by a taxpayer as a sign that tax authorities distrust honest taxpayers. Regular

and frequent audits may be seen as a sign of distrust, thereby legitimising taxpayers retaliating in a similar manner by reducing their tax payments. Faced with reduced revenue, tax authorities will conduct more audits, causing further damage to taxpayer trust as this will be seen as a proof of unfair treatment towards taxpayers. This is an unfortunate situation as it is generally more difficult to obtain trust than to lose it. On the other hand, the use of power may result in higher taxpayer trust if it is conducted in an efficient manner to detect fraud and uphold justice. Hence, the way people perceive how the use of power is carried out may be important in shaping taxpayer compliance because seeing 'dodgy' taxpayers being punished could improve the trust of honest taxpayers. When this is achieved, such trust would be beneficial as their support will also improve enforced compliance and the overall efficiency of monitoring activities. Another model worth mentioning here is the model proposed by Pickhardt and Prinz,²⁷⁸ where they integrate various factors affecting taxpayer compliance (Figure II.7).

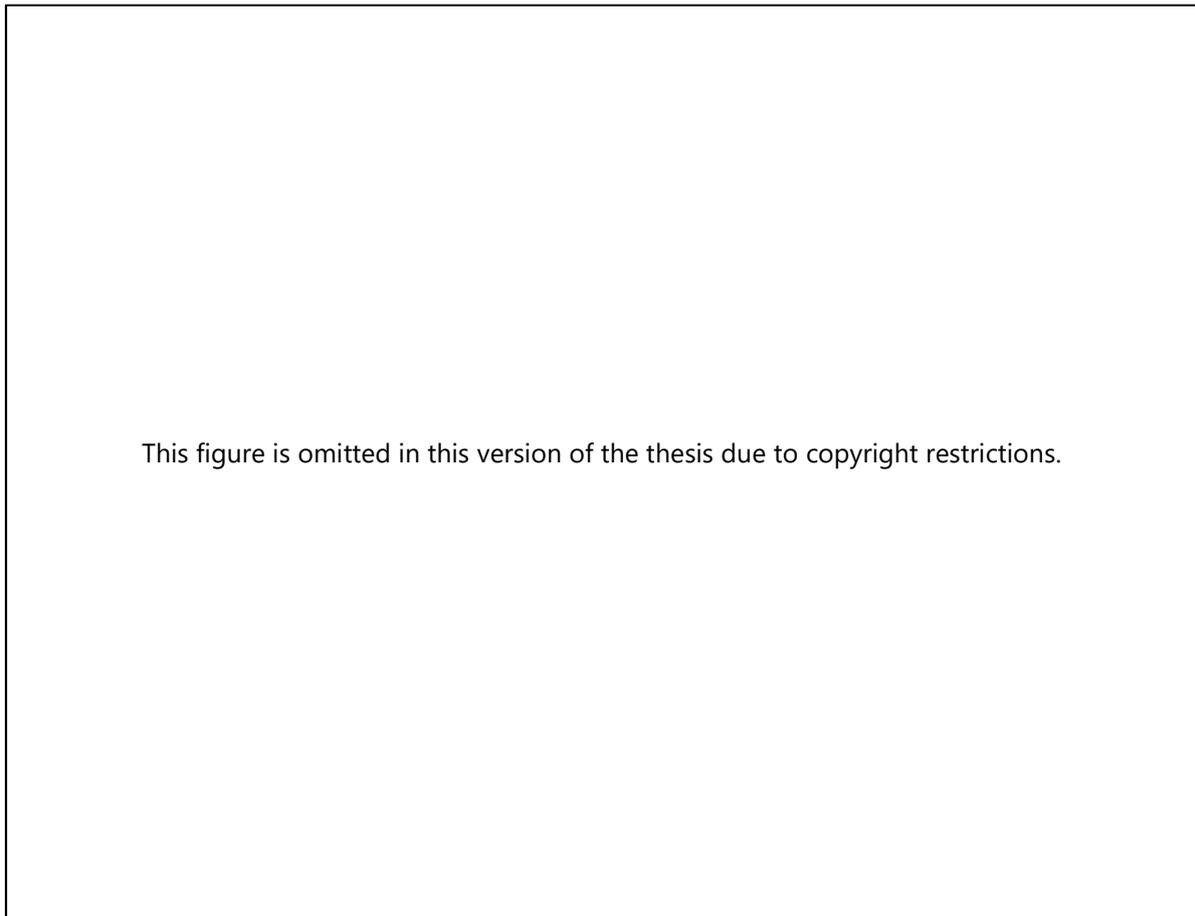


Figure II.7 Integrative model of tax evasion and compliance²⁷⁹

²⁷⁸ Pickhardt and Prinz, above n 242.

²⁷⁹ Ibid.

It is assumed in this model that taxpayers, before committing an act of evasion, are normally in conflict between maintaining their moral standards (honesty) and the benefit that may be obtained from being dishonest (benefit)—referred to here as the simple model of emotional balancing (SMOEB). Dishonest actions are generally driven by a person's 'fudge factor'.²⁸⁰ This generally means that a person's behaviour normally is governed by two opposing motivations: a desire to be seen as honest and sincere on one hand and on the other hand, to selfishly gain as much as possible, possibly through cheating if necessary. When that person's ability to rationalise the selfish behaviour increases, their fudge factor increases, and they become more comfortable with cheating or other misbehaviour. Accordingly, the acts of being dishonest can be reduced if that person's ability to rationalise such action declines, thereby lessens their fudge factor.²⁸¹

Once a person commits a crime, that person needs to rationalise their actions. The fudge factor increases when it becomes easier to rationalise such action, thus making it easier for them to commit the crime. Accordingly, a reduction in the fudge factor will make it more difficult for a crime to be committed. As a result—rather than putting more enforcement activities in place as suggested by the Allingham–Sandmo model—Ariely argues that manipulating the fudge factor—such as by reciting the Ten Commandments—may be more effective in reducing dishonest behaviour.²⁸²

The lower part of the model then explains the tendency for taxpayers to commit an act of evasion. This part generally depends on the incentive that they can obtain from doing so. This may include addressing certain problems that they cannot share with others, the opportunity that is available to them to commit that act (generally self-employed taxpayers have more opportunities to cheat compared with employees) and finally the ability of those taxpayers to justify the wrongdoing (perhaps they see their colleagues do the same thing).²⁸³ The Allingham–Sandmo model, however, only considers the advantage of evasion (benefit) and the probability of it being discovered (opportunity).²⁸⁴

²⁸⁰ Dan Ariely, *The (Honest) Truth About Dishonesty: How We Lie to Everyone - Especially Ourselves* (Harper, 1st ed, 2012).

²⁸¹ *Ibid.*, 53.

²⁸² *Ibid.*

²⁸³ Donald Ray Cressey, *Other People's Money: A Study in the Social Psychology of Embezzlement* (Patterson Smith, 1973).

²⁸⁴ Allingham and Sandmo, above n 221.

In addition to these factors, there are other elements that represent additional pressure shaping taxpayers' attitudes. These elements take the form of social institutions and personal networks. Personal networks in particular are important, as they are the foundation from which one obtains a self-restraint motivation by engaging in tax evasion games. This is because when they see others cooperate, they generally follow suit.²⁸⁵ Direct social pressure, for instance, has been found to improve compliance.²⁸⁶ Ilg calls this 'persuasion', which basically deals with individuals' adherence to the rule of law as a result of their concerns for their own reputation and social status.²⁸⁷ This perhaps is the reason why messages related to social norms, such as 'nine out of ten people pay their tax on time', are able to induce taxpayers to pay their tax bills sooner.²⁸⁸

On the other side of the coin, social institutions that form social norms, such as the tax office, are by no means less important (Figure II.5 and Figure II.6). Social norms in particular have been found to significantly affect compliance.²⁸⁹ This is probably because individuals generally adopt the values and norms of the group with which they identify and then tend to voluntarily cooperate with the authorities representing that group.²⁹⁰ Such compliance, however, is affected by the ease with which they can comply, as those who are committed to comply could still fall into the trap of non-compliance caused by honest mistakes.²⁹¹ As tax administration ties legal structures and its implementation in the field,²⁹² the organisation of a tax administration deserve special attention. Further, because they maintain continuous contact with taxpayers, tax administrators have a pivotal role in manipulating either—in

²⁸⁵ Stefania Ottone, Ferruccio Ponzano and Giulia Andrighetto, 'Tax Compliance Under Different Institutional Settings in Italy and Sweden: An Experimental Analysis' (2018) *Economia Politica*

²⁸⁶ Pietro Battiston and Simona Gamba, 'The Impact of Social Pressure on Tax Compliance: A Field Experiment' (2016) 46 *International Review of Law and Economics* 78.

²⁸⁷ Ilg, above n 222.

²⁸⁸ Michael Hallsworth et al, 'The Behaviorist as Tax Collector: Using Natural Field Experiments to Enhance Tax Compliance' (2017) 148 *Journal of Public Economics* 14.

²⁸⁹ Xin Liu, 'Use Tax Compliance: The Role of Norms, Audit Probability, and Sanction Severity' (2014) 18(1) *Academy of Accounting and Financial Studies Journal* 65.

²⁹⁰ Lemessa Bayissa Gobena and Marius Van Dijke, 'Fear and Caring: Procedural Justice, Trust, and Collective Identification As Antecedents of Voluntary Tax Compliance' (2017) 62 *Journal of Economic Psychology* 1.

²⁹¹ Jo'Anne Langham and Neil Paulsen, 'Invisible Taxation: Fantasy or Just Good Service Design?' (2017) 32(1) *Australian Tax Forum* 129.

²⁹² Charles Mansfield, 'Tax Administration in Developing Countries: An Economic Perspective' (1987) 35(1) *IMF Economic Review* 181.

Lewin's words—the driving or the restraining force to comply.²⁹³ After all, they are the ones who are tasked to try to understand, in Olson's words, 'what makes taxpayers tick'.²⁹⁴

An idea considered by Daniel Kahneman as 'the best idea I ever heard in psychology'²⁹⁵ revolves around the notion that a person's behaviour can be changed by either adding force that pushes them in a certain direction or reducing the obstacles that make that move difficult.²⁹⁶ Although that person's behaviour ultimately is an equilibrium between the two forces, the two forces carry a different secondary effect. The first force generally is accompanied by a high level of tension while the second force provides less tension. As tension in this case generally translates into higher aggressiveness, emotionality and lower constructiveness, the second force is preferred.²⁹⁷

Returning to the taxation context, the driving force to change taxpayers' behaviour can easily be seen as aligned with the traditional Allingham–Sandmo approach, generally relying on making non-compliance more expensive to do. In this so-called antagonistic climate, the relationship between tax authorities and taxpayers mimic that of cop and robber, where tax authorities see taxpayers as nothing more than robbers who continuously try to hide their assets and avoid paying taxes whenever possible. As such, they must to be put in check constantly. In contrast, taxpayers, feeling that they are always watched and persecuted, may find it right to hide their wealth from the watchful eyes of the tax office. Voluntary compliance, therefore, is minimal as taxpayers continuously weigh the costs and benefits of evading taxes. It can be immediately seen here that the approach is dominated by aggressive acts and tension.

The second force, on the other hand, can be seen as parallel with the synergetic relationship. Here, the relationship between tax authorities and taxpayers is like that of a service provider and its client. Tax authorities are seen as part of the community to which taxpayers belong and actually provide services for this community. Taxpayers in this

²⁹³ Kurt Lewin, 'Group Decision and Social Change' in Eleanor E. Maccoby, Theodore Mead Newcomb and Eugene L. Hartley (eds), *Readings in Social Psychology* (Henry Holt and Company, 3rd ed, 1958) 197.

²⁹⁴ Nina E. Olson, 'Procedural Justice for All: A Taxpayer Rights Analysis of IRS Earned Income Credit Compliance Strategy' in John Hasseldine (ed), *Advances in Taxation* (Emerald Group Publishing Limited, 2015) vol 22, 1.

²⁹⁵ Stephen J. Dubner, *How to Launch a Behavior-Change Revolution* (25 October 2017) <http://audio.wnyc.org/freakonomics_podcast/freakonomics_podcast102517.mp3>.

²⁹⁶ Lewin, above n 293.

²⁹⁷ Ibid.

environment are viewed as law-abiding citizens who are more likely to comply with tax rules voluntarily and are less enthusiastic about engaging in tax evasion games.

In Braithwaite's words, tax authorities, although they always have legal legitimacy, may not have psychological legitimacy.²⁹⁸ In the latter context, taxpayers always evaluate what tax authorities stand for. Based on this evaluation, taxpayers develop their position with the authorities. This results in what Braithwaite calls 'social distance'. Social distance generally also reflects psychological distance,²⁹⁹ which is a subjective evaluation on whether something is near or far.³⁰⁰ This concept focusses on the feelings of one person about another.³⁰¹ In the taxation context, the shorter this distance, the more the relationship leans towards the synergistic climate as taxpayers form a positive orientation towards tax authorities. However, it is interesting to note that for corporate taxpayers there is evidence that both threat-based and non-threat-based approaches to compliance may not be able to improve tax compliance significantly.³⁰² The non-threat-based approach may in fact backfire in the sense that it results in increased tax deductions claimed by taxpayers.

In the Indonesian context, as discussed in Section IV, it is clear that tax legislation mandates the self-assessment system as the system of choice. This entails the consequence that the tax system is directed towards the synergistic approach, as suggested in Figure II.6.³⁰³ Theoretically, this would be beneficial, as Figure II.6 shows: the cop-robber climate may not be fruitful in the end as it results in a distrustful environment that stimulates cheating behaviour and makes tax administration costly to maintain. It can also be seen in Figure II.6 that the service-and-clients approach is to be adopted as it leads to a trust environment.³⁰⁴ It is for this reason that the organisation of the DGT was changed from the type-of-tax approach

²⁹⁸ Valerie Braithwaite, 'Dancing with Tax Authorities: Motivational Postures and Noncompliant Actions' in Valerie Braithwaite (ed), *Taxing Democracy* (Ashgate, 2003) 15.

²⁹⁹ Qingzhou Sun et al, 'Increased social distance makes people more risk-neutral' (2017) 157(4) (2017/07/04) *The Journal of Social Psychology* 502.

³⁰⁰ Yaacov Trope and Nira Liberman, 'Construal-Level Theory of Psychological Distance' (2010) 117(2) (Apr) *Psychological Review* 440.

³⁰¹ Emory S. Bogardus, 'Measurement of Personal-Group Relations' (1947) 10(4) *Sociometry* 306.

³⁰² Barak Ariel, 'Deterrence and Moral Persuasion Effects On Corporate Tax Compliance: Findings From A Randomized Controlled Trial' (2012) 50(1) *Criminology* 27.

³⁰³ Kirchler, Hoelzl and Wahl, above n 56.

³⁰⁴ Bătrâncea et al, above n 267.

to a function-based organisation in 2007, following the formation of the LTO.³⁰⁵ The administration model derived from the LTO was later extended to cover medium and small-sized taxpayers as part of a pilot project run by the IMF in 2002–2004.³⁰⁶ Theoretically, such extension is useful as a way to extend the revenue stability in the large taxpayer sector to smaller-sized taxpayers.³⁰⁷

Several points are cited as advantages of function-based organisation.³⁰⁸ First, it promotes greater uniformity and specialisation. According to Alink and van Kommer, the idea of such specialisation is to accumulate knowledge and experience in certain aspects of taxpayer compliance behaviour and risks associated with certain type of taxpayers.³⁰⁹ This form of organisation is also useful for learning the particularities of laws and legal procedures that are relevant for certain types of taxpayers. Hence, taxpayers are treated based on their segmentation by classifying taxpayers into different groups and customising approaches based on the characteristics of each group, an approach that is considered one of the key drivers of tax administration performance in the McKinsey study.³¹⁰ Such a customised approach would eventually lead to increased compliance and improve the specialised skills of tax officials.

Second, as common processes are shared across functions, this leads to improved simplicity for both taxpayers and tax administration. This also means a decrease in overall administration costs as duplication of processes is significantly reduced. This improves the overall efficiency of tax administration. Further, as responsibilities are shared across different parts of the organisation, theoretically this improves the overall integrity of tax administration, as the opportunity for collusion among tax officers is more limited.

This approach, however, may have several disadvantages, such as uneven distribution of skilled personnel as skilled individuals are drawn towards working in a large tax office.³¹¹

³⁰⁵ Minister of Finance Regulation No 65/KMK.01/2002

³⁰⁶ Minister of Finance Regulation No 254/KMK.01/2004.

³⁰⁷ Parthasarathi Shome, 'Tax Administration and the Small Taxpayer' (2004) *IMF Policy Discussion Paper No PDP/04/2*.

³⁰⁸ Maureen Kidd, *Revenue Administration: Functionally Organized Tax Administration* (IMF, 2010).

³⁰⁹ Alink and Kommer, above n 120.

³¹⁰ Thomas Dohrmann and Gary Pinshaw, 'The Road to Improved Compliance: A McKinsey Benchmarking Study of Tax Administrations (2008-2009)' (McKinsey and Company, 2009) <https://www.mckinsey.com/~media/mckinsey/dotcom/client_service/public%20sector/pdfs/road_improved_compliance.ashx>.

³¹¹ Sonia D. Gatchair, 'Ideology and Interests in Tax Administration Reform in Jamaica' (2015) 43(6) *Politics & Policy* 887.

This in turn results in differences in remuneration as a result of higher skill requirements and more demanding working conditions. This may cause tax officials outside the large tax office to resent the preferential treatment given to their counterparts who work in that particular unit.³¹² In addition, there is a challenge to maintain consistency of treatment for taxpayers who belong to different segments but are in a similar situation.³¹³

When considering the dynamics of the relationship between tax authorities and taxpayers, how they affect one another and ultimately how this relationship shapes taxpayer compliance in the two models presented above, it is clear that tax authorities have a significant role. This is because it holds a central position in formulating appropriate efforts to obtain the correct blend of approaches that produce optimum compliance level. However, it is clear that, as has been shown in this literature review, the centre of attention on taxpayer compliance research is on the taxpayers' side.³¹⁴

Although it has been suggested that improving general tax administration, among other things, can increase tax revenue,³¹⁵ research in this area mostly touches on the macro side of administration. In this regard, Bird notes that an effective tax administration—one that is able to induce taxpayers to comply voluntarily with the law—requires three main ingredients: the political will to implement the tax system effectively; a clear strategy for achieving this goal; and adequate resources to complete that task.³¹⁶ He then states that once these are established, three tasks need to be completed: facilitating compliance; keeping taxpayers honest; and controlling corruption. For this purpose, Hasseldine identifies the following requirements that must be met:³¹⁷

1. a professional approach to internal management issues (such as human resources)
2. attention to cost efficiency and effectiveness
3. responsive engagement with all sectors
4. successful introduction with technology

³¹² Vehorn, above n 26.

³¹³ Alink and Kommer, above n 120.

³¹⁴ Alm, Kirchler and Muehlbacher, above n 186.

³¹⁵ Ayuba A. Aminu and Desmond I. Eluwa, 'The Impact of Tax Reforms On Government Revenue Generation in Nigeria' (2014) 1(1) *Journal of Economic and Social Development* 1.

³¹⁶ Bird, above n 189.

³¹⁷ John Hasseldine, 'The Administration of Tax Systems' (2010) *International Studies Program, Andrew Young School of Policy Studies, Georgia State University, Working Paper 10-21*.

5. understanding what drives taxpayers and tax agents
6. sophisticated risk profiling and informed responses to taxpayers' behaviour
7. transparency of governance and detailed performance reporting.

The first requirement is of interest in this thesis as tax officials are the ones who deal with both taxpayers and tax legislation on a daily basis. It is precisely on this area that the Indonesian tax system needs to focus.³¹⁸ Globally, the Organisation for Economic Co-operation and Development (OECD) identifies in their current report that the way in which tax staff are managed, engaged and led is essential for the success of a tax administration.³¹⁹ One of the factors highlighted by the OECD is the importance of skilled and committed employees. Here, it is argued that skilled and committed employees have fair and professional dealings with taxpayers.³²⁰ For this, the OECD cites that salary and benefit payments, opportunities for career advancement, and codes of conduct are of importance.³²¹ Indeed, how a tax administration be managed and run is an important topic to be explored further.³²² It is in this context that the contemporary literature seems to be lacking as most work in this area—as shown in the preliminary literature review presented in this chapter—appears to be centred on the taxpayers' side, although the role of a tax authority is essential.³²³ This is the issue that this thesis attempts to address. To that end, this thesis begins by analysing the administration of the offices formed as part of the tax administration reform pilot project, which was briefly discussed in Chapter I and is explored in detail in Chapter III. These offices were seen to be successful—in terms of revenue collection and curbing of corruption committed by tax officials—and their administration model was adopted nationally once the project was completed.

Because the pilot project was conducted within the DGT, analysing this project in detail would be beneficial for the purpose of the thesis (discussed in Chapter I), as this would produce

³¹⁸ Gunawan Setiyaji and Hidayat Amir, 'Evaluasi Kinerja Sistem Perpajakan Indonesia' (2005) 10(2) *Jurnal Ekonomi* 1.

³¹⁹ OECD, *Tax Administration 2017: Comparative Information on OECD and Other Advanced and Emerging Economies* (OECD Publishing, 2017).

³²⁰ OECD, *Principles of Good Tax Administration – Practice Note* (2 May 2001) <<https://www.oecd.org/tax/administration/1907918.pdf>>.

³²¹ Ibid.

³²² Richard Bird, 'Taxation and Development' (2010) October (34) *Economic Premise* 1.

³²³ Simon James, 'The Difficulties of Achieving Successful Tax Reform' in M. Mustafa Erdoğan and Bryan Christiansen (eds), *Handbook of Research on Public Finance in Europe and the MENA Region* (IGI Global, 2016) 30.

results that would arguably find immediate application in an environment administered largely based on that pilot project. The grounded theory approach briefly discussed in Section II is useful as a method of inquiry for this purpose. This is because this approach is directly grounded in the participants' first-hand experience and thus has a focus on generating theoretical explanation that can readily be implemented in new settings, particularly if they share similar characteristics to those reported in this study. Detailed discussions on this matter are presented in Chapter IV, Chapter V and Chapter VI of this thesis.

VI CONCLUSION

The preliminary literature review presented in this chapter provides an overview of two relevant themes identified in the literature: the Indonesian taxation system and taxpayer compliance. The first theme concludes with a notion that Indonesian taxation relies on the self-assessment system, which mostly depends on taxpayers' willingness to voluntarily comply with tax rules. The second theme identifies key aspects in the literature that are seen to be significant in influencing taxpayer compliance. It then establishes the importance of tax authorities in shaping compliance. It concludes with the identification of seven characteristics that are seen as important for tax administration proposed by Hasseldine.³²⁴ This thesis in particular focusses on the management of those working at the tax office, particularly in the Indonesian context, as this is an important area that does not appear to have been sufficiently covered in the current literature, representing a gap.

The next chapter outlines in more detail the key characteristics of Indonesian tax administration and presents the necessary context that forms the foundation for this study.

³²⁴ Hasseldine, above n 317.

CHAPTER III

TAX ADMINISTRATION IN INDONESIA

I INTRODUCTION

This chapter outlines the working environment of Indonesian tax administration and builds on the principles established in Chapter II, which outlined the basic tenets upon which the Indonesian tax administration is built; this mainly revolves around the application of the self-assessment system. The previous chapter then went on to explain that the key requirement for this system to work is the willingness of taxpayers to comply voluntarily with tax laws. The literature on this topic, as explored in Chapter II, mainly focusses on the taxpayers' side, although some studies highlight the importance of the role played by tax authorities.

Now that the theoretical foundation has been firmly established in Chapter II, this chapter discusses how these theoretical principles are put into practice in Indonesia. The information provided in this chapter helps contextualise the tax administration reform pilot project—and its subsequent nation-wide adoption once the project was finished—within the overall Indonesian tax administration system.

Further, the information provided in this chapter serves the key function of transferability in this inquiry. This function—the applicability of a working hypothesis developed in one context to another—depends on the similarity of the two contexts. Lincoln and Guba call this 'fittingness', which they define as 'the degree of congruence between sending and receiving contexts'.³²⁵ Thus, if context B is sufficiently congruent with context A, working hypotheses developed from context A may be applicable in context B. For readers to make this type of judgment, they need information on both context A and context B so that their judgment can be formulated in an appropriate manner. This chapter serves this purpose by providing detailed information on Indonesian tax administration (the sending context) so that readers can assess whether this situation is sufficiently congruent with their own condition (the receiving context). To this end, the chapter is organised as follows:

1. Section I : Section I provides the general introduction to this chapter.

³²⁵ Yvonna S. Lincoln and Egon G. Guba, *Naturalistic Inquiry* (SAGE Publications, Inc, 1985).

2. Section II : Section II outlines the Indonesian taxation system from a historical point of view. The key period highlighted is the 1984 tax reform as this is when a fundamental shift in the Indonesian revenue focus took place: from an oil and gas-intensive to a tax-intensive system. It then moves on to the more recent period of reform with the main focus on tax administration project reform in the 2000s.
3. Section III : This section is used to describe the applicable tax legal system in Indonesia. It begins with a description of the legal system in general, starting with the constitution. It aims to show that legal aspects of the taxation system in Indonesia can be traced to the Indonesian constitution. This section then moves on to describe the general principle of taxation as currently applied in Indonesia.
4. Section IV : Building on the review presented in Section II, this section reports the application of the self-assessment system in Indonesia. It aims to provide a general overview of how this system is applied based on the legal principle established in the tax legislation, particularly the General Provisions and Tax Procedures law.
5. Section V : Section V deals provides a description of the organisational structure tasked with the implementation of the legislation and tax system described in previous sections. This section explains chronologically how the organisational structure of the DGT has changed over time and provides a rationale for those changes.
6. Section VI : Section VI begins with an analysis of tax revenue performance in Indonesia. It provides a general description of tax revenue in Indonesia and then considers how this has changed over time. A comparison with GDP as a proxy for the tax base is made along with an international comparison involving several comparable South East Asian countries. One notable piece of information provided in this section is that there was a declining state tax buoyancy between 2008 and 2016. Further, it is shown that tax revenue growth does not correlate with GDP growth.
7. Section VII : Section VII concludes this chapter.

This chapter now moves on to Section II to outline the historical context of the tax system in Indonesia.

II HISTORICAL BACKGROUND

There is no art which one government sooner learns of another than that of draining money from the pockets of the people. (Adam Smith)³²⁶

A Pre-1984

In this era, the Indonesian taxation system mostly used the taxation system introduced by Dutch colonialists. During this period, there were 16 laws related to taxation. This included, for example, laws on salary and wages taxation, income taxation, dividend taxation, turnover taxation, radio taxation, foreign entity taxation, development taxation, wealth taxation and several other taxation laws and ordinances. This tax system remained untouched until the early 1980s although it contained major weaknesses as it was based on outdated tax legislation written during the Dutch colonial administration.³²⁷ Changes introduced after Indonesia's independence in 1945 did not seem to be able to deal with this problem. In fact, by 1981, the Indonesian tax system had become an extremely complex system consisting of unenforceable amendments, decrees and regulations. It failed to deliver adequate revenue and equity and had become a source of inefficiency.³²⁸ This can be seen, for instance, in the continuous decrease of the non-oil tax revenue-to-GDP ratio in the period prior to tax reform in 1983 (Figure III.1).

³²⁶ Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (University of Chicago Press, 1976).

³²⁷ Gillis, above n 17.

³²⁸ Ibid.

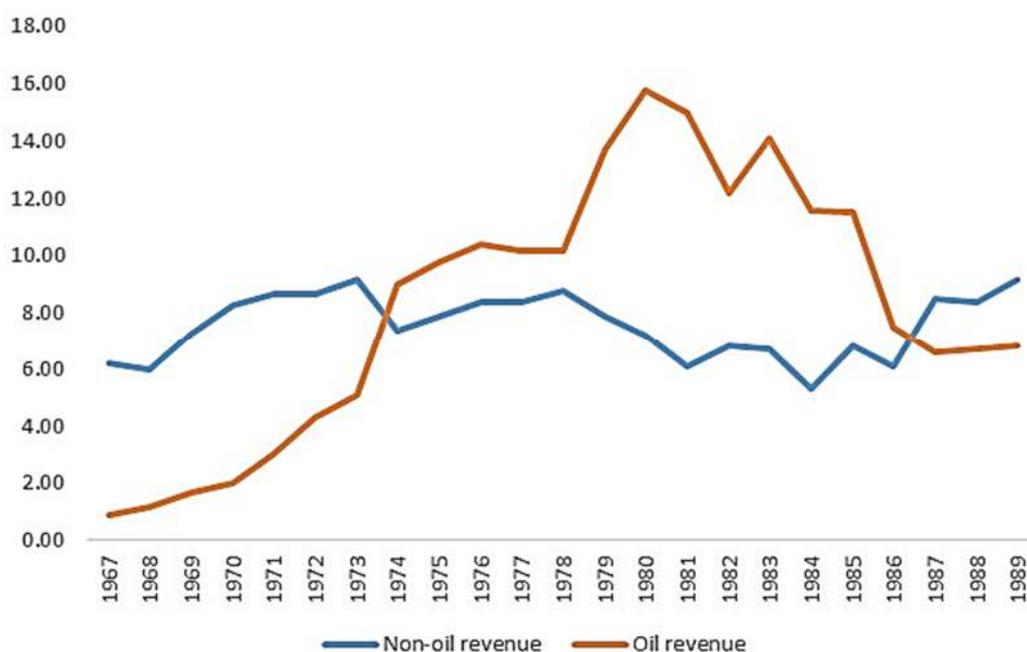


Figure III.1 Non-oil tax revenue-to-GDP ratio trend (1967–1989)

It can also be seen from Figure III.1 that, in contrast to non-oil tax revenue, tax receipts from oil taxation showed a stronger performance, mostly because of the simple but effective tax rules contained in the oil contract production agreement.³²⁹ This high revenue from oil taxation in 1973–1981 apparently was the main factor that contributed to reluctance about reforming the tax system at that time.³³⁰ Gilles adds that this reluctance to reform was also due to several other factors. First, those who did not earn much income were unaware of the taxes imposed on them as taxes were disguised in the form of indirect taxation. Second, high-income earners enjoyed a relatively low tax burden as most taxes were paid by state-owned companies and foreign corporations. Third, as mentioned previously, the tax system was highly complex such that outside the tax administration, few people understood which particular legislation applied in a certain situation. This had resulted in a significant level of corruption among tax officials. Nevertheless, it was recognised that over-reliance on oil taxation revenue might be disadvantageous because oil taxation revenue began to decrease in 1981 (Figure III.1).

³²⁹ Ibid.

³³⁰ Ibid.

B 1984–1990

1 Reform Plan

Recognising the decrease in oil tax revenue, the Indonesian government commenced planning for tax reform in early 1981. For this reform, several decisions were made:³³¹

1. Sufficient time was allocated to investigate the weaknesses in the existing tax system and to convert tax policy recommendations into draft legislation.
2. The tax reform would cover the entire Indonesian the tax system including the tax structure and the institutions that govern that structure.
3. The reform would cover all types of taxpayers, including those in the oil and gas industry. However, to avoid conflict with oil companies, it was decided that oil companies that signed production contracts prior to the reform would retain their existing tax treatment. For those who entered into a contract after the tax reform, the new tax legislation would apply. However, companies were assured that in the event of a significant increase in tax payments because of the applicability of the new law, this increase would be fully compensated with a reduction in royalties paid to the Indonesian government.
4. The reform would be comprehensive in nature and be presented at one time.
5. The whole reform would be fully funded by the Indonesian government although foreign consultants were used in the process because of the lack of domestic expertise. These expatriates would mostly remain overseas and maintain a low profile. They were predominantly Americans or had an American background and this influenced their approach.³³² This can be seen, for instance, in their focus on simplification, rate reduction and base broadening.

Another issue worth mentioning was that by employing foreign advisers, the government could use them as scapegoats in a sense that they could lay the blame on these advisers should something go wrong. Further, these foreign advisers could shield the reform against criticism as well as resistance from local groups based on their perceived objectivity and status as experts.³³³

³³¹ Ibid.

³³² Heij, above n 10.

³³³ Ibid, 243.

6. The Indonesian government would facilitate training to enable Indonesian tax officials to operate in the new tax system. This training would cover a wide area of expertise such as taxation, economics, accounting and computer science.

The team believed that the reform should not be aimed at pursuing purposes other than revenue collection.³³⁴ This later led to their decision to eliminate a large number of incentives to pursue simplicity.

2 Reform Element

(a) Administration

As mentioned previously, the old tax system in Indonesia was highly complex. This complexity was predominantly due to changes aimed at achieving non-revenue goals, such as the introduction of various tax incentives. Therefore, one key ingredient in the tax reform was simplifying tax structure and tax administration. This required that the tax base be broadened and tax rates restructured to be more uniform.

In terms of administration, the key reform was the introduction of a new self-assessment system. This new system replaced the existing system where taxpayers were required to visit the tax office to have their taxable income and tax payable calculated.³³⁵ This, in combination with the highly complex system, resulted in rampant corruption among tax officials. The self-assessment system was introduced partly to deal with this problem. The new system limited contact between taxpayers and tax officials significantly, and thereby reduced the possibility for negotiation and corruption.

The new self-assessment system, however, was not without weakness.³³⁶ For example, the system required the tax office to check the accuracy and completeness of information lodged by taxpayers. For this purpose, access to relevant data and information was essential, but unfortunately quite limited. Another feature of the new system was that there should be a mechanism to ensure that taxpayers reported their situation correctly. This led to a situation of distrust where tax officials continuously sought to reveal taxpayers' activities in avoiding taxes.

³³⁴ Gillis, above n 17.

³³⁵ Heij, above n 5.

³³⁶ Ibid.

There was also a problem of not having sufficient auditors. At that time, the DGT only had around 800 auditors for more than four million taxpayers, and they mostly focussed on tax refunds.³³⁷ It is a general belief that taxpayers tend not to comply if the possibility of being caught is small.³³⁸ In Indonesia, at the beginning of the reform, the possibility of being caught evading taxes was limited for several reasons:³³⁹

1. There was a lack of auditing skills, particularly on complex tax issues.
2. Some taxpayers were protected either by the government or by certain tax officials.
3. Some taxpayers were simply difficult to trace as a result of limited data availability.

(b) *Income Tax*

Income tax was one of the areas that was targeted for significant reform. In the old tax system, income was subject to two types of tax: Pajak Pendapatan (PPD) for individuals and Pajak Perseroan (PPS) for companies. These two taxes had become highly complex, mainly because of the large number of exemptions and exclusions. PPD also had relatively steep rates ranging from 5% to 50%; similarly, PPS had progressive rates ranging from 20% to 45%.

Separate income taxation rules applied for oil companies. The taxation of income for oil companies was generally codified in their production contract and was not part of the income tax system in general. Revenue from oil taxation dominated the Indonesian tax revenue structure at that time, with non-oil taxation playing a relatively trivial role. For example, company and individual income taxation prior to the tax reform in 1983 contributed only 11.4% and 0.6% of GDP, respectively.³⁴⁰

This poor performance was largely attributed to structural and administrative weaknesses.³⁴¹ Most deductions and exclusions in PPD for instance, were targeted to favour high-wealth individuals, causing their income to be untaxed or only lightly taxed. Civil servants and passive income were also relatively untaxed. This had eroded the tax base for PPD. The tax base for PPS was also eroded by the introduction of various tax incentives. These incentives were regarded as expensive and unfavourable for smaller firms and hence had discriminatory

³³⁷ Ibid.

³³⁸ Allingham and Sandmo, above n 221.

³³⁹ Heij, above n 5.

³⁴⁰ Gillis, above n 17.

³⁴¹ Ibid.

effects.³⁴² Although they were designed to attract foreign investment and develop certain regions in Indonesia, generally they were ineffective at doing so. On the revenue side, these incentives had caused a small proportion of companies to pay income tax at the marginal top rate of 45%.³⁴³ In the context of tax administration, these incentives had made income tax administration more difficult.³⁴⁴ It was therefore decided that eliminating such incentives was pivotal in reforming income taxation. As a replacement, lower tax rates applicable to all taxpayers were introduced.

The reform resulted in a new unified income tax called Pajak Penghasilan (PPH). Replacing PPD and PPS, PPh applies to both individual and corporate taxpayers. It also applies to oil companies whose contract was signed after 1 January 1984, the date when PPh law came into force. This unification was mainly caused by the desire to achieve simplicity.³⁴⁵

To further achieve simplicity, most incentives that were available in PPD and PPS were abolished. It was a common belief among the HIID advisers that tax incentives had a relatively small influence on attracting foreign investments. Concerns raised by the domestic subcommittee involved in the reform process on this issue were not able to convince the Ali Wardhana—who was the Indonesian Minister of Finance (MoF) at that time—that incentives were still required.

As a means to limit the disapproval of opposing parties, the incentives were said not to be abolished but instead replaced with a lower rate structure that applies to all taxpayers. Hence, the applicable income tax rates were set progressively at 15% and 30% and then peaked at 35%, among the lowest in South East Asia at that time. The advisers were convinced that high tax rates had contributed to the low compliance level in Indonesia. Heij stresses that Indonesian tax rules could not be enforced, regardless of the tax rate, because of problems with tax administration.³⁴⁶ Hence, rate reduction became one of the key factors in income tax reform.

The income tax base was also expanded as income was only loosely defined in the legislation. Income that previously was exempted or lightly taxed, such as capital gains and

³⁴² Ibid.

³⁴³ Ibid.

³⁴⁴ Ibid.

³⁴⁵ Gilis, above n 17.

³⁴⁶ Heij, above n 10.

civil servants' salary and rental income, was fully taxed under the new PPh. However, the tax-free threshold was increased, resulting in a significant reduction in the number of income taxpayers. The advisers believed that the possible revenue reduction as a result of these measures would be compensated by the significantly expanded tax base and tougher enforcement activities. These recommendations were apparently not supported by the local subcommittee members, who maintained that the tax rates were not progressive enough to ensure income redistribution and that the lower rates would not guarantee sufficient tax revenue. However, they failed to convince Ali Wardhana.

Another important aspect of the reform was the taxation of *yayasan* (foundations) and *koperasi* (cooperatives). *Yayasan* were one of the main vehicles in the Indonesian economic system at that time and were believed to be used extensively by then Indonesian President Suharto to manage his family's assets. Under the old income tax law, *yayasan* were virtually untaxable. In the new system, *yayasan* were liable to be registered as taxpayers, although some income they receive was exempted; this was particularly the case for those serving the public interest although the definition of 'public interest' was not mentioned in the law. In the end, Williamson, one of the HIID team leaders, noted that taxing *yayasan* in a stricter way was politically not possible at that time.

Taxation of *koperasi* was apparently also quite a sensitive matter. *Koperasi* were often linked with government institutions and therefore had high status in the Indonesian economy. Under the old law, *koperasi* were, just like *yayasan*, relatively untouched. The other HIID team leader, Gillis, noted that gaining approval from the *Departemen Koperasi* (Cooperative Department), particularly when most incentives available at the time were to be abolished, was critical in the tax reform project.³⁴⁷ In the end, the new income tax law contained a provision that enabled *koperasi* to accumulate money relatively untaxed.

Another key issue in the new income tax law was the introduction of a simpler pay-as-you-earn and withholding taxation system. This new system, for instance, required employers to withhold tax paid on behalf of their employees. Other organisations that made payments in the form of interest, dividends, royalties or other passive income to other parties were required to withhold income tax on those payments. This mechanism was essential to ensure that taxes were still collected despite the weak tax administration organisation. Civil servants,

³⁴⁷ Gillis, above n 17.

whose income was previously untaxed, were also subject to income taxation, like those working in private sectors. However, they received additional income to compensate the lost income they paid as income tax.

Taxation on interest earned on term deposits, however, turned out to be strongly debated in the parliament because of the pressure from financial industry to prevent such taxation. The new law mandated such taxation to be regulated under a *peraturan pemerintah* (PP, government regulation). A decree that was later enacted, however, postponed taxing such interest until further notice, leaving interest on term deposits untaxed.

(c) Consumption Tax

Consumption tax prior to the reform mainly consisted of turnover tax. This type of tax has been known for its cascading effect and generally favours vertically integrated business.³⁴⁸ The Indonesian version of turnover tax was known not only for its cascading effect, but was also complex because of its rate differentiation ranging from 1% to 20% and its complicated exemptions.³⁴⁹ As a result, it was quite ineffective in collecting revenue. In 1983, sales tax contributed only 5.4% of total revenue or 1.1% of Indonesian GDP. This is much lower than other developing countries' figures of 20–25% of total revenue and 4–5% of GDP.³⁵⁰

Upon recognising this problem, it was decided that a European-type VAT would be introduced to replace the existing turnover tax. Corresponding to the purpose of tax reform in revenue raising, a VAT is quite a popular source of revenue and has been widely adopted worldwide since its inception in France after World War II.³⁵¹ The Indonesian version of VAT at that time, however, did not reach retail taxpayers because of administrative limitations.

The new consumption tax in the form of a VAT tried to achieve simplicity by eliminating most exemptions by product and introducing a single, uniform rate. At the time of introduction and until today, the applicable VAT rate was 10%. The legislation allows room for a change of rate from 5% to a maximum of 15%, but the rate must be a single rate. The decision to eliminate most exemptions and to apply a single rate raised concerns that the VAT would be regressive. However, the VAT was only payable on transactions at the manufacturer level. As a result, unprocessed food would essentially be untaxed. As spending on this type of food

³⁴⁸ Alan Schenk and Oliver Oldman, *Value Added Tax: a comparative approach* (Cambridge University Press, 1 ed, 2007).

³⁴⁹ Gillis, above n 17.

³⁵⁰ Ibid.

³⁵¹ Schenk and Oldman, above n 348.

dominates low-income earners' consumption, it was believed that the VAT would not have a great regressive effect on them.

An additional measure to address this regressive concern was the introduction of a separate regime of luxury sales tax. Under this legislation, luxury sales tax, in addition to the applicable VAT, had to be paid by those who purchased luxury items. Hence, it was expected that a better income redistribution effect could be achieved, as the rich would pay more when they consumed items that were deemed to be luxury items. Although the new luxury sales tax would not contribute to tax revenue significantly, its main purpose was as political support for the enactment of the new single-rate VAT.³⁵²

Another characteristic of the new VAT law was that it used a credit method system. This meant that businesses would only need to pay the difference between the tax that they paid when they purchased taxable goods and the VAT they collected when they sold that item to a consumer. However, they could claim a refund if they paid more taxes on purchases than the VAT they collected from their customers.³⁵³ Last, as applied in Europe, the Indonesian VAT adopted the destination principle approach. This was meant to essentially free exports from the effects of consumption taxation. However, this principle meant that imports were subject to VAT as they were consumed domestically.

Again, it can be seen here that the VAT also featured simplification, rate reduction and base broadening. It eliminated various exemptions that were applicable in the old turnover tax and therefore simplified the tax system. Simplification was also achieved by excluding small businesses for VAT purposes to avoid the excessive administrative burden on these businesses. Further, it applied a single rate of 10% that made the tax even simpler. This rate reduction, from the top rate of 20% that had previously applied, was compensated by broadening the tax base, as most manufactured goods were subject to VAT.

(d) Land and Building Tax

In addition to income and consumption-based taxation, several taxes were levied based on property and wealth. The most significant of these types of tax was the Iuran Pembangunan Daerah (IPEDA, Contribution for Regional Development). The IPEDA was

³⁵² Gillis, above n 17.

³⁵³ It is this refund claim that later contributes to the excessive auditing burden that essentially limit the ability of the Indonesian tax office to ensure taxpayer compliance.

basically levied on the rental value of property in both urban and rural areas. Although a single rate of 0.5% was formally applied, in reality, there were multiple rates. For example, forestland was taxed at 20% of logging royalty. Similar to other types of taxes, the IPEDA too had many exemptions, which were based on land use, property size, property ownership or property value. These various exemptions eroded its tax base and ultimately made it unable to contribute significantly to the tax revenue. In 1983, for instance, the IPEDA only contributed 0.2% of GDP to total tax revenue.

In light of this, it was decided that all wealth-based taxation including the IPEDA, wealth tax, household tax and several other land-based taxes, would be abolished; as a replacement, the Pajak Bumi dan Bangunan (LBT) law was enacted in 1986. Under the new law, a single rate of 0.5% of property market value was adopted. Commercial and residential properties were treated equally. Most exemptions were eliminated, leaving only the exemption for non-profit organisations, national parks, international organisations or diplomatic offices and traditional grazing land. To address any regressive effects, an exemption of IDR 2 million of building value was allowed, causing most rural properties and houses owned by low-income earners to remain relatively untaxed. This, in combination with the single rate, essentially simplified LBT administration as tax officials concentrated only on high-value tax properties.

3 Reform Stages

Heij identifies that the Indonesian tax reform at that time followed three distinct stages: reform design formulation; proposal formulation; and finalisation.³⁵⁴

(a) Reform Design Formulation

Discussions to plan tax reforms in Indonesia began early in 1981 at the ministry level with advice from foreign advisers from the HIID. It was decided that:

1. sufficient time would be allocated for the reform to be completed. It was felt that there was no need for immediate additional revenue as oil tax revenue was still abundant.
2. the reform would be fully funded using domestic sources of funds to avoid allegation of ties with foreign parties.
3. recommendations made by the advisers would immediately be converted into legislation to avoid technical problems and resolve possible inconsistencies.

³⁵⁴ Heij, above n 10.

4. for the recommendations to be properly implemented, it was seen to be necessary to include local officials in the reform process.
5. the reform would be conducted using a low-profile approach as requested by the Indonesian government. The foreign advisers would be in Indonesia for no longer than two weeks to assess the situation. Once recommendations were formulated, they would be forwarded to Gillis, who would make summaries and discuss them with his Indonesian counterparts. As a result of this approach, public exposure was virtually non-existent. This approach was taken on the understanding that it would lead to simple tax laws, because of limited pressure to provide incentives.
6. to prepare for the implementation stage, training for local officials would be provided in either Europe or the US.
7. all existing tax legislation would be abolished and the reform would start from a completely new position.
8. the reform would include administrative aspects to implement the new taxation systems. This included the introduction of a new identification and computer system.
9. there would be no final report and recommendations would be discussed as soon as they were completed.

(b) Reform Proposal Formulation

During this stage, foreign consultants began to conduct analyses and make recommendations for the existing tax system. Several visits were made to Indonesia as part of data gathering and recommendations on various tax aspects were made. These recommendations were then presented to Ministry of Finance key officials by Gillis or Williamson as the HIID team leaders.

Most discussions took place among foreign advisers or between Ali Wardhana and Gillis with one or more foreign consultants. Gillis and/or Williamson acted as a liaison between the Indonesian key decision makers and foreign advisers. Most of the time, these advisers forwarded their recommendations to either Gillis or Williamson who would then present them to their Indonesian counterparts. It was not uncommon at that time for two advisers to have opposing views on the same aspect of tax; so it was left to the Minister of Finance to make the final decision.

(c) Finalisation

One notable feature of the Indonesian tax reform at that time was that legislation drafting closely followed the recommendations. During late 1983, final adjustments on policy recommendations were discussed at steering committee meetings. At this point, a combination of Indonesian and foreign lawyers began to include the recommendations in draft legislation. The critical factor at that time was the abolishment of tax incentives previously available to corporate taxpayers. To achieve acceptance, the advisers decided to convey that idea as introducing more effective and global incentives that apply to all taxpayers in the form of rate reduction. This is because making arguments against tax incentives was seen as unproductive as incentives were seen as a key instrument in attracting foreign investment. This strategy was a success because approval from members of cabinet and the Indonesian president was obtained.

Table III.1 A simplification of tax types after reform

Pre-1983	Post-1983
Pajak Perseroan (income tax for companies)	
Pajak Pendapatan (income tax for individuals)	
Pajak Kekayaan (wealth tax)	Pajak Penghasilan (income tax)
Pajak Bunga, Dividen, dan Royalti (tax on interest, dividend and royalty)	
Pajak Penjualan (sales tax)	Pajak Pertambahan Nilai dan Pajak Penjualan atas Barang Mewah (VAT and sales tax on luxury goods)
Pajak atas Tanah (land tax)	
Verponding (tax on indigenous land)	
Verponding Indonesia	Pajak Bumi dan Bangunan (LBT)
Iuran Pembangunan Daerah (regional development levy)	
Bea Meterai 1922 (stamp duty)	Bea Meterai (stamp duty)

Source: Simanjuntak and Mukhlis (2012)

The Indonesian president at that time publicly expressed his support for the tax reform initiative. He even went further to urge the parliament to prioritise its process in the parliament. Given the strong political position of the president at that time, his support was interpreted as a sign that the draft legislations were not to be significantly changed from their current form. Discussions in the parliamentary committee were in an atmosphere where the majority attitude was to leave the reform to the experts. Objections from members of parliament usually ceased when they were told that a proposed reform was the best approach. This situation was similar to the approach taken by the Indonesian government during the preceding stages of the

reform process. The role of the HIID was seldom mentioned at this stage. It was instead announced that the reform was assisted by advisers hired internationally. The draft taxation bills were presented to the parliament in November 1983 and were all legislated the following month, just in time for when the oil price began to decline. Table III.1 outlines the final tax types resulting from this reform process.³⁵⁵

4 Key Features

The key features of the first Indonesian tax reform were as follows:

1. High degree of care in preparation

As mentioned, during the planning stage of the reform, it was decided that the reform would require years of work. The reform was first initiated in 1981 and the new laws were finally passed by the parliament in late 1983. This long period of preparation was necessary to facilitate comprehensive evidence gathering to assess the effect of the existing regime on income distribution, resource allocation and growth.

The whole reform process was coordinated by a committee led by the Minister of Finance, who coordinated with the HIID to organise several foreign advisers to assist with the reform. It was also decided that the reform project would include drafting of tax legislation. Thus, the HIID included six lawyers in its team of foreign advisers. Another important aspect was the decision to make tax administration part of the reform. This resulted in the introduction of the NPWP and computer application. It was also the reason for including an accountant and a computer analyst on the HIID's advisory team.

2. Simplification

One of the key aspects in terms of simplification in the Indonesian tax system was the decision to abolish tax incentives. This was not easy to achieve because at that time, tax incentives were believed to be the key factor attracting foreign investment. However, the existence of various incentives had made the Indonesian tax system highly complicated, so that taxpayers found it difficult to understand the rules. As mentioned, this led to low compliance levels. To make things worse,

³⁵⁵ Timbul Hamonangan Simanjuntak and Imam Mukhlis, *Dimensi ekonomi perpajakan dalam pembangunan ekonomi: sistimatis, aplikatif, dan dilengkapi dengan hasil kajian berbagai negara dan hasil kajian penelitian* (Raih Asa Sukses, 2012).

those who decided to comply were faced with intense dealings with tax officials, an activity that often led to collusion between the two parties.

This made non-oil revenue play an insignificant role in supporting national expenditure. The new income tax legislation introduced a lower rate tax rate, 35% as the top rate as opposed to the previous 45% for companies and 50% for individuals, which was marketed by the foreign advisers as general incentives applying to all taxpayers. Another simplification in this regard was the increased tax-free threshold that significantly reduced the number of Indonesians who were subject to income taxation. The decrease in potential revenue as a result of this measure was compensated by the broadening of the income tax base by defining taxable income loosely as any increased economic benefit.

The second aspect of simplification was the introduction of a VAT replacing the poorly administered turnover tax (Law No 12 of 1952). Under the new VAT, simplification was achieved by subjecting most transactions of goods and services to VAT, leaving only agricultural produce untaxed. The applicable tax rate was a single rate of 10%, the rate that still applies today. Making agricultural produce untaxed also carried the benefit that lower-income families remained untaxed as the majority of their consumption was related to primary production; this partly addressed the regressive nature of a VAT. The simplification of VAT was in fact often claimed as one of the key successes in increasing the contribution of non-oil tax revenue.

Third, this reform was also unique because it went further with respect to the administrative aspects of taxation, by introducing the NPWP. This created a cross-reference system for taxpayers and a cross-reference between income tax and VAT to ensure the accuracy of tax returns lodged by taxpayers. It also facilitated risk-based audit, a new type of audit mechanism that was recognised to be important as a result of the joint audit task force activities.

Last, this reform showed the strong influence of foreign advisers, coordinated by the HIID, in the decision-making process. Formally, the reform process was led by Ali Wardhana supported by key economic ministers such as Radius Prawiro, Widjojo Nitisastro and JB Sumarlin. However, the decisions made by these key persons reflected significant influence from the HIID advisers. The local committee

and subcommittee members were not in a position to challenge the arguments put forward by these advisers. In fact, the reform has resulted in an income tax system that closely reflects the US and Western view of a good tax system by advocating lower rates, simplicity and the abolishment of tax incentives. Gillis noted that the proposed income tax rate structure in Indonesia closely resembled the Bradley–Gephardt bill proposed in 1983 in the US, although he added that the Indonesian income tax rate structure took lessons from the unenforceability of the highly progressive rates contained in the previous tax regime.³⁵⁶ It is therefore reasonable to conclude that the tax reform did not have much local ownership. The tax office was not significantly involved in the process, nor was there much public exposure.

5 Results

(a) Revenue

The tax reform was considered a success in increasing non-oil tax revenue,³⁵⁷ which rose from 5.3% in 1984 to 10.0% of GDP in 1990, an increase of more than 88%.³⁵⁸ It is evident from Figure III.1 that in the years following the reform, the tax revenue derived from non-oil sources continued to show an upward trend whereas tax revenue flowing from oil and gas appeared to decrease. The government can also be seen to start relying more on non-oil tax revenue to support its budget (Figure III.2).³⁵⁹ In 1996, the proportion of non-oil tax revenue to government expenditure reached 59%.³⁶⁰ Therefore, in terms of revenue, the tax reform was a success.³⁶¹

The main driving force behind the non-oil and gas tax revenue increase was VAT. In 1984, the year the new VAT law came into force, sales tax contributed only 1.0% of GDP. Seven years after being replaced by the new VAT law, sales tax had shown a remarkable increase of 290%, to 3.9% of GDP.³⁶² Although not as strong as VAT, income tax in the period also increased by 75%, to 3.4% of GDP. The strong increase in VAT revenue was believed to be a

³⁵⁶ Gillis, above n 17.

³⁵⁷ Bawazier, above n 12.

³⁵⁸ Heij, above n 5.

³⁵⁹ Ibid.

³⁶⁰ Heij, above n 10.

³⁶¹ Bawazier, above n 12.

³⁶² Heij, above n 335.

result of the simple and uniform VAT system that was applied in Indonesia.³⁶³ The applicable VAT has been the low rate of 10% since its introduction. It is applied to a wide range of goods and services and collected through business owners, which are mostly state-owned companies.

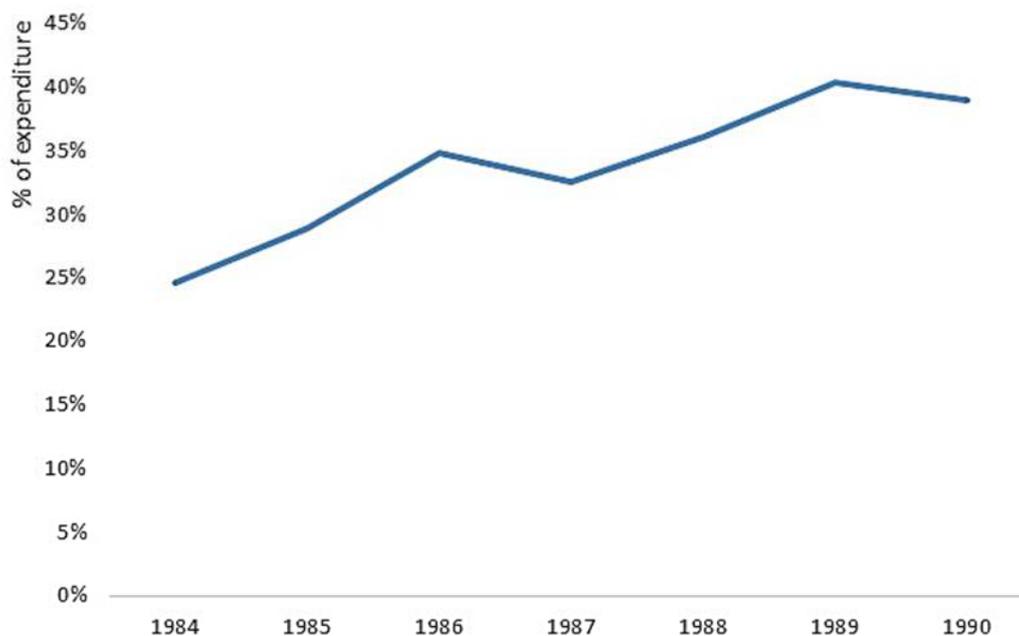


Figure III.2 Non-oil tax revenue to expenditure ratio (1984–1990)

The strong revenue performance attributed to the VAT was, however, not evident in income tax. In fact, when VAT revenue increased significantly, the income tax contribution decreased from 2.4% of GDP in 1983 to 2.0% of GDP in 1986, three years after the introduction of the new income tax system. In an attempt to increase revenue and induce tax evaders to be taxpayers in the new tax system, a tax amnesty was introduced in April 1984 when Presidential Decree No 26/1984 came into force.³⁶⁴ Under this decree, any person, registered as a taxpayer or otherwise, was given an opportunity to obtain an amnesty for unpaid taxes provided that they registered as a taxpayer, lodged a tax return and submitted a balance sheet or list of assets. The amnesty included payments for PPD, wealth tax, PPS, Pajak Pendapatan Buruh (income tax for salary and wage earners), sales tax and withholding taxes (taxes on dividends, interest, royalties). Because the amnesty only attracted a small number of persons and

³⁶³ Gillis, above n 17.

³⁶⁴ Presidential Decree No 26/1984.

therefore was considered a failure,³⁶⁵ that programme was later extended for another six months.³⁶⁶

(b) Administration

On the administrative side, Indonesian tax administration did not seem able to show improved administration practice. In addition to VAT coordination difficulties, most tax officials were unfamiliar with the overall new VAT system. In fact, a degree of resistance was evident and tax officials failed to register a sufficient number of taxable entrepreneurs, which was critical for the European-type VAT that had been introduced in Indonesia. The bulk of VAT revenue at that time was obtained not from such registration but by taxing transactions on most goods and services traded through customs, the national oil company (Perusahaan Pertambangan Minyak dan Gas Bumi Negara, Pertamina) and other state-owned companies. Gillis noted that during the early months of the VAT, although the number of registered entrepreneurs approached the anticipated level, more than 60% did not lodge the required monthly VAT return. To make matters worse, there was no audit conducted on any of these taxpayers.³⁶⁷

On the income tax side, tax administration showed correspondingly poor performance. This made it difficult for the new income tax system to support the revenue objectives of the reform. In an attempt to attract more taxpayers into the system, the Indonesian government introduced a tax amnesty in 1984,³⁶⁸ which was extended later because of the poor acceptance among taxpayers.³⁶⁹ It was noted that the tax amnesty was a failure and overall administration performance could undermine the credibility of the new income tax system.³⁷⁰ To alleviate this problem, a joint audit team was formed to conduct audits on tax returns showing zero or negative tax liability. This joint audit team resulted in significant additional revenue in the form of unpaid taxes, penalties and fines. In addition, it provided a lesson that significant revenue can be obtained through targeted audit activity. Gillis noted that the joint audit might be able

³⁶⁵ Gillis, above n 17.

³⁶⁶ Presidential Decree No 72/1984.

³⁶⁷ Gillis, above n 17.

³⁶⁸ Presidential Decree No 26/1984.

³⁶⁹ Presidential Decree No 72/1984.

³⁷⁰ Gillis, above n 17.

to increase compliance, although he added that the potential for future audits was uncertain as some members of the audit teams were subjected to allegedly false accusations.

Heij notes that several factors may have contributed to the low performance of the tax administration at that time, including that:³⁷¹

1. The tax officials had a lack of the skills needed to cope with the new tax legislation. This caused an increase in uncertainty as legal problems were not be able to be resolved easily. It also created difficulties for tax officials when they had to deal with more highly trained tax advisers representing foreign companies.
2. As a response to pressure to meet revenue targets, auditors mostly directed their efforts into taxpayers claiming tax refunds, as these were viewed as reducing tax revenue. As a consequence, auditing activities as part of efforts to curb potential avoidance or evasion schemes were not prioritised as such activities tend to be time demanding with uncertain additional revenue outcome.
3. Most tax officials found it difficult to adapt to the new self-assessment system. In the old system, taxpayers were required to consult the tax office to determine their taxable income. Tax officials then calculated the amount of tax that a particular taxpayer needed to pay. In contrast, under the new system, tax officials were relatively minor involvement in the process. Although limiting contact between taxpayers and tax officials could be important in preventing fraud, Indonesia was considered not to have the necessary conditions for this system to be applied successfully. These include a sophisticated information system to check the accuracy of information provided by taxpayers in their tax returns and access to more information to be used in such a system.
4. The DGT had a limited number of auditors, most of whom were focussing on tax refunds, to deal with the increasing number of taxpayers. Worse, their skills were often not sufficient to cope with complex taxation issues. This certainly would have limited the ability of the DGT to detect evasion. Traditionally, it has been argued that the lower the possibility for a taxpayer to be caught being dishonest, the more

³⁷¹ Heij, above n 5.

evasion and fraud they commit.³⁷² In Indonesia, the chance of being detected was apparently small because:

- a. There was a lack of skills in most tax officials.
 - b. Certain taxpayers enjoyed protection from the government.
 - c. Some taxpayers were able to collude with tax officials by means of bribery.
 - d. The limited amount of information and cross-checking mechanisms made some taxpayers difficult to trace.
5. There was inadequate supervision in place to monitor the behaviour of tax officials.
 6. There was rampant corruption within tax administration. A number of factors had been suggested as its cause, including low salaries,³⁷³ insufficient supervision and complexities in the taxpayer dispute-resolution process.
 7. There was a lack of information and cross-checking mechanisms.

Nevertheless, the number of taxpayers rose sharply between 1983 and 1986. Strong growth too was evidenced in businesses registered for VAT in 1985–1990.³⁷⁴ By 31 December 2013, total taxpayers reached 18.8 million.³⁷⁵

C 1990–2001

Several changes were introduced into Indonesian tax law after 1984. The foreign advisers had left Indonesia and there was a degree of confidence among Indonesians to amend their own taxation laws. Revenue was strong as most government expenditure was supported by non-oil tax revenue (e.g., 59% in 1996).³⁷⁶ In 1990, income tax legislation was amended. Here, one of the notable issues was the inclusion of interest on term deposits, which were previously untaxed as a result of pressure from financial industries, because part of the taxable income was a way to encourage investment through the stock exchange. A number of amendments to other tax laws were also introduced (Table III.2).

Income tax rates were reduced further in the 1994 income tax amendment. For individuals, the applicable highest marginal tax rate was reduced from 35% to 30% and for

³⁷² Allingham and Sandmo, above n 221.

³⁷³ This issue is partly dealt with in the second part of the Indonesian tax administration reform and in the recent Presidential Regulation No 37/2015.

³⁷⁴ Woo, Glassburner and Nasution, above n 15.

³⁷⁵ Letter No S-70/PJ.08/2014.

³⁷⁶ Heij, above n 5.

companies, the rate structure was changed from a progressive rate structure with a maximum rate of 30%, to a flat rate of 30%. This was reduced further to 28% in 2008 and finally to 25%, a year later. Arguably, this would benefit large companies that were taxed at the top rate and disadvantage small businesses. For this reason, the 1994 amendment inserted a new article that provided small businesses a 50% discount on the income tax rate that was applicable to them. However, the 2008 income tax legislation amendment also further expanded the income tax base by inserting a provision to tax the Indonesian Reserve Bank's surplus. This strategy of reducing rates on one hand and expanding the tax base on the other, seems to be consistent with one used by the HIID advisers in the 1980s.

Table III.2 Tax legislation changes after 1984 reform

Legislation	Enacted			Amended						
	1983	1985	1997	1991	1994	2000	2002	2007	2008	2009
General Provisions and Tax Procedures	✓				✓	✓		✓		
Income tax	✓			✓	✓	✓			✓	
VAT and STLG	✓				✓					✓
LBT		✓			✓					
Stamp duty		✓								
Duty on land and building acquisition (DLBA)			✓			✓				
Tax dispute resolution			✓				✓			

Source: Author's compilation

Another change that can be observed is that the Indonesian government began to reintroduce tax incentives starting from the 1994 income tax reform.³⁷⁷ This can be seen, for example, in tax incentives offered to those making investments in the eastern part of Indonesia—which was less developed compared to the western part of Indonesia—and the controversial incentives provided to PT Timor Putra Nusantara to develop a national car. Further incentives for certain companies were also introduced in 1995. These incentives included a longer period of carry-forward losses, an accelerated depreciation and a reduction in withholding tax on dividends. The company income tax rate was also lowered to 30%. A 'tax

³⁷⁷ Eureka Putra, 'A Study of the Indonesian's Income Tax Reforms and the Development of Income Tax Revenues' (2014) 12(3) *Journal of East Asian Studies* 55.

holiday' was reintroduced a year later for taxpayers in specific industries. A small number of firms, all related to Suharto, had been granted these facilities.³⁷⁸

The most notable incentive would arguably be that given under the national car initiative in 1996.³⁷⁹ This initiative provided a legal framework to grant significant tax incentives to PT Timor Putra Nasional, a newly established company owned by the youngest son of Suharto (Indonesia's president at that time) to manufacture an indigenous car in Indonesia.³⁸⁰ The facilities granted to this company included a significant exemption from import duty on certain imported parts and components³⁸¹ and an exemption from sales tax on luxury goods that should have been levied at the rate of 60% on the sale of its cars.³⁸² Originally intending to manufacture the cars in Indonesia, the company ended up importing built cars from a Korean manufacturer on the grounds that its manufacturing facilities in Indonesia were not ready,³⁸³ while at the same time enjoying tax incentives as if the cars were being manufactured in Indonesia.³⁸⁴ The controversial presidential instruction that provided this favourable incentive was scrapped two years later because of strong international pressure, mainly from the World Trade Organization, of which Indonesia is a member, and the IMF, from which Indonesia received a large loan during the economic crisis that began to hit in 1997.³⁸⁵

D 2001–Now

Of the three countries mostly affected by the Asian economic crisis of 1997-1998 (Indonesia, South Korea and Thailand), Indonesia seems to have suffered the most, mainly because of corruption, nepotism and collusion that was widespread during the Suharto presidential era. As has been noted, corruption in the pre-1980 era was rampant, making it difficult for the tax office to provide sufficient revenue.³⁸⁶ While the reform of the 1980s was considered a success in terms of revenue, it failed to address administrative issues. In fact, most tax officials simply adapted their traditional way of doing business to the new legal

³⁷⁸ Heij, above n 10.

³⁷⁹ Presidential Instruction No 2/1996.

³⁸⁰ Ministry of Industry and Trade decree No 002/SK/DJ-ILMK/II/1996.

³⁸¹ Minister of Finance decree No 82/KMK.01/1996.

³⁸² Government Decree No 20/1996.

³⁸³ Philippe Riès, *Asian Storm: The Economic Crisis Examined* (Tuttle Pub., 2000).

³⁸⁴ Presidential Decree No 42/1996.

³⁸⁵ Presidential Decree No 20/1998.

³⁸⁶ Gillis, above n 17.

environment as a result of the reform, so that providing extra payments for tax officials was seen as common practice.³⁸⁷ The main purpose of the reform was the improvement of the tax system as a way to increase revenue and place less emphasis on good governance.³⁸⁸

The opportunity to improve the administrative system came when the Indonesian government entered into an agreement with the IMF in 2000 that gave access for Indonesia to financial assistance. As part of this agreement, Indonesia was required to overhaul its tax administration.³⁸⁹ Indonesia was required to establish an LTO two years later as a way to strengthen its tax administration and improve tax revenue collection.³⁹⁰ The move towards an LTO is not surprising, as the IMF has played a major role in worldwide LTU adoption.³⁹¹

A number of factors have been suggested as the drivers behind the adoption of an LTU. They include securing revenue; improving the management of tax arrears; improving audits; improving taxpayer service quality.³⁹² It is also indicated that an LTU can sometimes be established as part of an overall tax administration reform.³⁹³ In this context, Indonesia seems to have used an LTU as a way to optimise revenue collection and undertake a pilot project for further reform. Focussing on large taxpayers is also logical as most revenue comes from them. Tasked with the management of the 200 largest taxpayers—95 for LTO I and 105 for LTO II³⁹⁴—these two offices were responsible for more than 20% of Indonesia's tax revenue at that time.³⁹⁵

The organisation of the newly established LTO was a departure from the rest of the Indonesian tax system. While the other tax offices were organised based on the type of tax, the LTO was organised according to the function-based principle.³⁹⁶ Under this principle, staff

³⁸⁷ Heij, above n 10.

³⁸⁸ Mukhammad Faisal Artjan, 'Developing State Capacity in Indonesia: Lessons from Technical Assistance Program in the Ministry of Finance' in Hirotsune Kimura et al (eds), *Limits of good governance in developing countries* (Gadjah Mada University Press, 2011) 363.

³⁸⁹ Gol, above n 19.

³⁹⁰ *Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding* <<https://www.imf.org/external/np/loi/2001/idn/02/index.htm>>.

³⁹¹ Bahl and Bird, above n 22.

³⁹² Baer, Benon and Toro, above n 23.

³⁹³ *Ibid*, 13.

³⁹⁴ Director General Decree No 263/PJ/2002.

³⁹⁵ Brondolo et al, above n 21.

³⁹⁶ Minister of Finance Regulation No 65/KMK.01/2002.

are grouped according to the processes they perform, such as registration, auditing or information processing.³⁹⁷ At that time, other parts of the DGT consisted of independent offices established to manage different types of taxes.³⁹⁸ This includes the KPP, which was responsible for the management of income tax and VAT, and the KP PBB, responsible for the LBT. In addition, there was the Karikpa, which was responsible only for tax auditing and Kantor Penyuluhan dan Pengamatan Potensi Perpajakan (Tax Counselling Office).

As noted earlier, the main reason for the introduction of an LTU is to secure revenue, which is often accomplished by ensuring taxpayer compliance through on-time tax return filing and tax payment.³⁹⁹ It is believed that such a unit helps increase taxpayer compliance and administrative effectiveness.⁴⁰⁰ However, it may fail if the general tax reform agenda is not based on a gradual process, strong political will and an emphasis on simplicity.⁴⁰¹

Once an LTU is functioning well, its design can then be applied nationally. It therefore can act as a catalyst for a wider reform process.⁴⁰² This is consistent with the result of the IMF's survey that the establishment of an LTU can be used as a pilot project before full administrative reform takes place.⁴⁰³ This is the approach that was taken in Indonesia. Following the Letter of Intent (LoI) signed by the Indonesian government as part of the IMF's restructuring programme, an LTO was formed in 2002 in Jakarta.⁴⁰⁴ Two years later, the LTO's organisational design was extended to cover medium-sized and small taxpayers with the establishment of an MTO and an STO in the Central Jakarta region.⁴⁰⁵

The results for these pilot offices were promising. They achieved a high taxpayer satisfaction score in the AC Nielsen eQ survey.⁴⁰⁶ The pilot offices (LTO, MTO and STO) respectively achieved scores of 81, 78 and 74, which were higher than the overall scores for Australia (66), Hong Kong (75) and Singapore (76). The survey revealed that the strengths of

³⁹⁷ Alink and Kommer, above n 120.

³⁹⁸ Minister of Finance regulation No 443/KMK.01/2001.

³⁹⁹ Vehorn, above n 26.

⁴⁰⁰ Baer, Benon and Toro, above n 23.

⁴⁰¹ Vehorn, above n 26..

⁴⁰² McCarten, above n 24.

⁴⁰³ Baer, Benon and Toro, above n 23.

⁴⁰⁴ Minister of Finance Regulation No 65/KMK.01/2002

⁴⁰⁵ Minister of Finance Regulation No 254/KMK.01/2004.

⁴⁰⁶ Brondolo et al, above n 21.

these offices were in their integrity, services, simplicity-efficiency and informational resources. They also demonstrated stronger revenue performance than the old-style tax offices. The LTO for instance, showed an increase in revenue collection from 1.54% of GDP in 2002 to 1.80% of GDP in 2003, while revenue of non-modernised offices for the same period remained at 7.2% of GDP. Most revenue (1.52% of GDP in 2002 and 1.76% of GDP in 2003) was from voluntary payments. The LTO's revenue continued to grow, reaching 2.34% of GDP in 2005. In contrast, non-modernised office showed a decrease from 7.2% of GDP in 2003 to 4.1% of GDP in 2005. It was thus concluded that the increase in compliance that led to the revenue rise at these offices was mostly associated with the administrative reform.⁴⁰⁷

III SELF-ASSESSMENT SYSTEM IN INDONESIA

The legal foundation of taxation in Indonesia can be traced back to the Indonesian constitution. Article 23A of the Indonesian constitution provides that:

Pajak dan pungutan lain yang bersifat memaksa untuk keperluan negara diatur dengan undang-undang.

(All taxes and other levies for the needs of the state of a compulsory nature shall be regulated by law.)

In essence, this article suggests that the government should not impose regulations that may increase the burden on its constituents without permission from Indonesian citizens through their representatives in the parliament. In this case, this article expects that members of the parliament will pursue the best interests of their constituents.⁴⁰⁸

Under the mandate of this article, several tax laws have been enacted, including:

1. KUP law
2. income tax law
3. VAT law
4. LBT law
5. stamp duty.

In article 1 number 1 of the KUP law, tax is defined as:

⁴⁰⁷ Ibid.

⁴⁰⁸ AM Fatwa, *Potret Konstitusi Pasca Amandemen UUD 1945* (Penerbit Buku Kompas, 2009).

kontribusi wajib kepada negara yang terutang oleh orang pribadi atau badan yang bersifat memaksa berdasarkan Undang-Undang, dengan tidak mendapatkan imbalan secara langsung dan digunakan untuk keperluan negara bagi sebesar-besarnya kemakmuran rakyat

(compulsory contribution to the state payable by individuals or other legal entities that is legally enforceable under the law, without direct benefits and is used to finance the state's expenses for the maximum benefits of the people).

The term *compulsory contribution* has the consequence that a certain measure of collection from those obliged to pay is required. Taxes can be collected in several ways:

1. Taxpayers calculate and pay their tax payable. Tax officials' roles are limited to monitoring activities.
2. Taxpayers coordinate with tax officials to determine their tax payable. This coordination can take the form of lodgement of a simple or comprehensive notification to tax officials. However, the amount of tax payable is calculated by tax officials.
3. Tax officials calculate tax payable without the involvement of taxpayers.

The Indonesian taxation system before 1967 used the latter two approaches. On 26 August 1967, Law No 8/1967 introduced the self-assessment system to the Indonesian Income Tax 1944, Wealth Tax 1932 and Corporation Tax 1925 laws. The self-assessment system was named *Menghitung Pajak Sendiri* (MPS, Calculating My Tax) and *Menghitung Pajak Orang lain* (MPO, Calculating One's Tax). MPS meant that the tax was calculated and paid by the taxpayer whereas MPO was to a system in which taxes were calculated and paid by a third party.

The tax collection system currently applied in Indonesia is not a pure self-assessment system, but a blend of several systems that include:

1. An official assessment system where tax payable is calculated by tax officials and only payable when an assessment letter is issued. This, for instance, occurs with LBT or as a result of an audit.
2. A self-assessment system where tax payable is calculated and paid by taxpayers. For example, this is used for income tax paid under article 25 or 29 of the income tax law.

3. A withholding system where tax payable is calculated and paid by neither the taxpayer or tax officials. In this case, tax payable is calculated and paid by a business partner in a business transaction, for example. Taxpayers then later may claim such payments as tax credits in their tax return.

Taxpayers' activities in the self-assessment process as applied in Indonesia cover the following:

1. registering for income tax or VAT purposes
2. calculating tax payable
3. calculating tax to be paid taking into consideration tax already paid (tax credit)
4. paying or depositing tax payable
5. lodging a tax return
6. deregistering as a taxpayer for income tax or VAT purposes.

The process of the self-assessment system was presented in Chapter II and is reproduced here as Figure III.3.

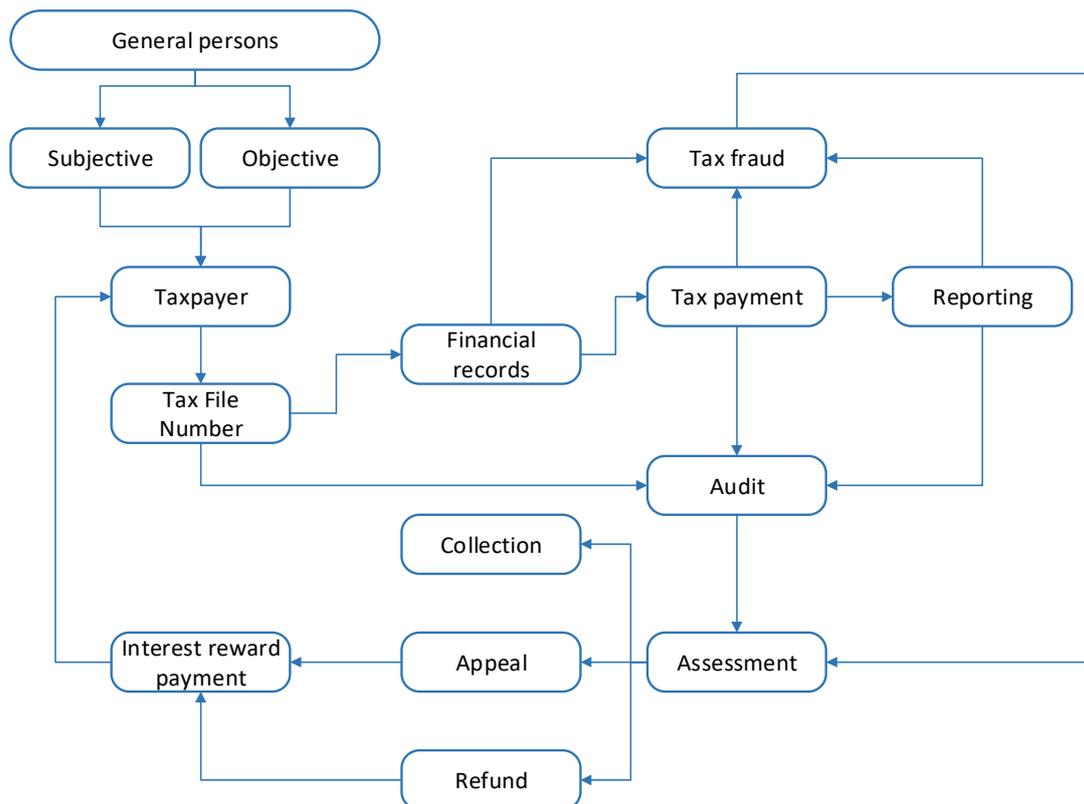


Figure III.3 Self-assessment system in Indonesia

A Registration

As can be seen in Figure III.3., a person who satisfies subjective and objective requirements must register as a taxpayer and obtain an NPWP from the tax office. Such requirements can be found for instance in the income tax law. Here, a person satisfies a subjective requirement if that person stays in Indonesia for more than 183 days in a given financial year; a company satisfies a subjective requirement if it is incorporated in Indonesia.⁴⁰⁹ For a foreign entity, subjective requirements will be satisfied if that entity conducts a business in Indonesia through a permanent establishment⁴¹⁰ or if not, may receive an Indonesian-sourced income.⁴¹¹ Another requirement to be a taxpayer is an objective requirement, which will be satisfied if, for example, a person receives a taxable income. Once these subjective and objective requirements are met by a person, that person is legally required to register as a taxpayer and obtain an NPWP.⁴¹² A person who is legally required to register as a taxpayer but deliberately fails to do so may face a criminal penalty in the form of imprisonment and monetary penalty.⁴¹³

B Bookkeeping

Once a person is registered as a taxpayer, that person is required to calculate, pay their tax payable and then report it in a correct, complete and clear manner.⁴¹⁴ To be able to do so, a taxpayer who owns a business must maintain the necessary financial records.⁴¹⁵ This can be in the form of a financial statement or, for certain taxpayers, a simple record of monthly turnover.⁴¹⁶ An example of taxpayers who are only required to maintain a simple record of monthly turnover is individuals whose business has an annual turnover not higher than IDR 4.8 billion (~AUD 484,600).⁴¹⁷ In all cases, such records must be kept for 10 years in Indonesia.⁴¹⁸

⁴⁰⁹ See income tax law article 2 paragraph (3) part a for individuals and part b for companies.

⁴¹⁰ Article 2 paragraph (4) part a of the income tax law.

⁴¹¹ Article 2 paragraph (3) part b of the income tax law.

⁴¹² Article 2 paragraph (1) KUP law.

⁴¹³ Article 39 paragraph (1) KUP law.

⁴¹⁴ Article 3 paragraph (1) KUP law.

⁴¹⁵ Article 28 paragraph (1) KUP law.

⁴¹⁶ Article 28 paragraph (2) KUP law.

⁴¹⁷ Article 1 Minister of Finance Regulation No PMK 197/PMK.03/2007.

⁴¹⁸ Article 28 paragraph (11) KUP law.

A taxpayer who is required to maintain honest financial records but deliberately fails to do so may be imprisoned for a period of six months to six years and incur a monetary fine of between two and four times the amount of the unpaid tax.⁴¹⁹ In addition, if during an audit it is revealed that a taxpayer had not maintained the necessary financial records, they will incur a penalty of 50% of the underpayment⁴²⁰ or 100% of the unpaid tax, if it is withheld by a third party.⁴²¹ A 100% penalty also applies to unpaid VAT.⁴²²

C Payment

Taxpayers use information obtained from financial records to calculate and pay tax payable. The amount of tax to be paid must be calculated in accordance with the applicable legislation without the need for a formal tax assessment notice to be issued by the tax office.⁴²³ The payment must be made on a day that is no later than a certain day specified by the Minister of Finance. This date is set at a maximum of 15 days after a taxable period ends.⁴²⁴ For this purpose, the Minister of Finance has set various dates that determine the maximum period of tax payment. For example, monthly prepayment of income tax must be made no later than the fifteenth day after a taxable period ends.⁴²⁵ Another example can be found in article 2A Minister of Finance Regulation No PMK-80/PMK.03/2010 where a VAT payment must be made by a taxable entrepreneur before the VAT return is lodged at the end of the next taxable period. In addition, if a taxpayer at the end of a financial year lodges an income tax return stating underpayment, that underpayment must be paid before the tax return is lodged, which is usually due by either 31 March or 30 April.⁴²⁶ A payment made after these dates attracts penalty interest of 2% per month.⁴²⁷

⁴¹⁹ Article 39 paragraph (1) KUP law.

⁴²⁰ Article 13 paragraph (3) part a KUP law.

⁴²¹ Article 13 paragraph (3) part b KUP law.

⁴²² Article 13 paragraph (3) part c KUP law.

⁴²³ Article 12 paragraph (1) KUP law.

⁴²⁴ Article 9 paragraph (1) KUP law.

⁴²⁵ Article 2 Minister of Finance Regulation No PMK-80/PMK.03/2010.

⁴²⁶ Article 9 paragraph (2) KUP law.

⁴²⁷ Article 9 paragraph (2a) and paragraph (2b) KUP law.

D Reporting

Once payments have been made, taxpayers lodge a signed tax return in a correct, complete and clear manner, either annually (for income tax) or monthly (for VAT).⁴²⁸ The amount of tax reported in a tax return must be calculated in accordance with the applicable tax legislation.⁴²⁹ If the tax office finds evidence that a particular taxpayer has not calculated and paid their tax payable in accordance with the applicable rules, the law grants the tax office the authority to calculate the correct amount of tax payable.⁴³⁰ The tax office has five years to issue a Notice of Tax Underpayment Assessment in such a case.⁴³¹ Depending on the circumstances, a penalty of 2% interest per month for the maximum period of 24 months on the underpayment,⁴³² or a 50% or 100% increase may be applicable.⁴³³ Once the five-year period has elapsed, the temporary assessment becomes permanent if the tax office does not issue any tax assessment.⁴³⁴ However, if a tax crime has been committed under a definite court verdict, a Notice of Tax Underpayment Assessment can still be issued even though the five-year period has elapsed.⁴³⁵

Article 3 paragraph (3) KUP law then provides that for income taxation, a tax return must be lodged no later than three months (for individual taxpayers) or four months after the end of a financial year (for other than individual taxpayers). Since a financial year in Indonesia corresponds with the Roman calendar, which runs from 1 January to 31 December,⁴³⁶ individuals must lodge their tax return no later than 31 March or, for other than individual taxpayers, 30 April. This time limit can be extended to a maximum of two months.⁴³⁷

E Audit and Penalties

For those who fail to comply with reporting requirements, a penalty of IDR 500,000 (~AUD 50.38 on 12 February 2015) for VAT return, IDR 100,000 (~AUD 10.08) for individual

⁴²⁸ Article 4 paragraph (1) KUP law.

⁴²⁹ Article 12 paragraph (2) KUP law.

⁴³⁰ Article 12 paragraph (3) KUP law.

⁴³¹ Article 13 paragraph (1) KUP law.

⁴³² Article 13 paragraph (2) KUP law.

⁴³³ Article 13 paragraph (3) KUP law.

⁴³⁴ Article 13 paragraph (4) KUP law.

⁴³⁵ Article 13 paragraph (5) KUP law.

⁴³⁶ Article 3 number 8 KUP law.

⁴³⁷ Article 3 paragraph (4) KUP law.

taxpayers and IDR 1,000,000 (~AUD 100.75) for other than individual taxpayers applies.⁴³⁸ Tax returns that have been lodged can be amended by a taxpayer as long as an audit on that return has not been conducted.⁴³⁹ If a taxpayer fails to lodge a tax return, and it is the first time for such failure, a penalty of 200% of tax payable, in addition to tax underpayment, must be paid.⁴⁴⁰ This penalty also applies for a tax return that does not reflect the taxpayer's actual condition. However, if that taxpayer commits the aforementioned failures for a second time, this constitutes a criminal offence incurring penalties in the form of imprisonment or monetary penalty.⁴⁴¹ Harsher punishments may be applied in the form of a higher monetary penalty and longer period of imprisonment if the taxpayer commits the failure for a third time.⁴⁴² If, less than one year after completing payment of their criminal penalty, that taxpayer commits the same offence again, the criminal penalty to be imposed will be doubled.⁴⁴³

It is also possible for a taxpayer to overpay their taxes. For example, a taxpayer is required to prepay their income tax on a monthly basis.⁴⁴⁴ Such prepayment is calculated based on the previous year's tax payable. If their previous year's taxable income is higher than the current year's income, their prepaid tax (i.e., their tax credit) will also be higher than what they actually owe. In this case, that particular taxpayer in their income tax return will state that their taxes are overpaid and may request a refund.⁴⁴⁵ The tax office will then conduct an audit to determine if that claim is correct.⁴⁴⁶ If it is, a tax overpayment assessment letter will be issued once the audit has been completed.⁴⁴⁷ This audit must be completed within 12 months⁴⁴⁸ and the overpayment refund must be made no later than one month after the audit has been completed.⁴⁴⁹

⁴³⁸ Article 7 paragraph (1) KUP law.

⁴³⁹ Article 8 paragraph (1) KUP law.

⁴⁴⁰ Article 13A KUP law.

⁴⁴¹ Article 38 KUP law.

⁴⁴² Article 39 paragraph (1) KUP law.

⁴⁴³ Article 39 paragraph (2) KUP law.

⁴⁴⁴ Article 25 income tax law.

⁴⁴⁵ Article 11 paragraph (1) KUP law.

⁴⁴⁶ Article 17B paragraph (1) KUP law.

⁴⁴⁷ Article 17 paragraph (1) KUP law.

⁴⁴⁸ Article 17B paragraph (1) KUP law.

⁴⁴⁹ Article 11 paragraph (3) KUP law.

An audit can be aimed at examining taxpayer compliance, as in this case, or for other purposes.⁴⁵⁰ To examine compliance, an audit can be used to assess the accuracy of information contained in tax returns, financial records or tax payments. In this context, a mandatory audit must be conducted when an overpayment is claimed by a taxpayer.⁴⁵¹ Such compulsory requirement, however, is not necessary in other cases. These non-compulsory audits include, for example, risk-based audits on certain types of taxpayers or those who change their accounting method or accounting period.⁴⁵²

If an audit produces a result that a tax is underpaid, then a Notice of Tax Underpayment Assessment is issued. This usually prompts a tax collection activity. A taxpayer, however, may challenge that assessment through an objection process, which will be administered by the tax office. If the taxpayer finds that the result of the first process is unfavourable, an appeal may be lodged in the tax court.⁴⁵³ In addition, a taxpayer may lodge a lawsuit against an unlawful notice of tax assessment or Decision on Objection.⁴⁵⁴ In case of a tax crime, the procedure generally follows the criminal law prosecution process, administered by a district court with the potential to proceed to the Supreme Court.

It should be noted that to be eligible for an appeal, a taxpayer must pay the tax payable up to the amount that is agreed by that taxpayer.⁴⁵⁵ If the appeal process results in a tax refund, after taking into account the already-paid tax, in addition to the refund, that taxpayer will also receive 2% interest per month for a maximum of 24 months.⁴⁵⁶ The 2% monthly interest is also received by a taxpayer who claims for a tax refund if the tax office fails to complete the refund process in the specified time,⁴⁵⁷ which is either three⁴⁵⁸ or twelve⁴⁵⁹ months depending on the tax assessment type.

⁴⁵⁰ Article 29 paragraph (1) KUP law.

⁴⁵¹ Article 17B paragraph (1) KUP law.

⁴⁵² Article 4 paragraph (2) Minister of Finance Regulation No PMK 17/PMK.03/2013.

⁴⁵³ Article 27 paragraph (1) KUP law.

⁴⁵⁴ Article 23 paragraph (2) KUP law.

⁴⁵⁵ Article 25 paragraph (3a) KUP law.

⁴⁵⁶ Article 27A paragraph (1) KUP law.

⁴⁵⁷ Article 11 paragraph (3) KUP law.

⁴⁵⁸ Article 17C paragraph (1) KUP law.

⁴⁵⁹ Article 17B paragraph (1) KUP law.

IV ORGANISATIONAL STRUCTURE

A Pre-1983

Although accessing sources that provide a complete description of the organisational structure of the tax office in the pre-1983 era is difficult, in general terms, it was found that the DGT was originally a collection of several agencies. This includes:

1. Jawatan Pajak (taxation agency), responsible for levying taxes. This agency was originally formed by the Dutch administration under the Departemen Van Financien.⁴⁶⁰ Later, the tax office was put under the Zaimubu during the Japanese era.
2. Jawatan Lelang (auction agency), responsible for auctioning assets acquired as part of tax dispute settlements.
3. Jawatan Akuntan Pajak (tax accountant agency), responsible for conducting tax audits.
4. Jawatan Pajak Hasil Bumi (land taxation agency), responsible for levying taxes on land. This agency was initially under the Direktorat Jenderal Moneter (monetary directorate general) and was transferred to the tax office in 1976.⁴⁶¹

There were also regional offices referred to as Kantor Inspeksi Pajak Daerah (tax inspection offices) in Jakarta, Sumatra, Java, Kalimantan and eastern Indonesia. During early independence, in 1951, it was decided that the tax office was to be coordinated by the Direktur luran Negara (state contribution director) in the Minister of Finance. It was in 1966 that the tax office assumed the name, the DGT.⁴⁶²

B 1983–2006

As mentioned earlier, the tax reform initiated in the early 1980s marked a significant change in the DGT's organisation. The main change introduced in terms of tax administration was the introduction of the self-assessment system. Whereas in the previous era, the tax office was known as Kantor Inspeksi Pajak Daerah (tax inspection office), after this reform, it was changed to the KPP. The change from *inspeksi* (inspection) to *pelayanan* (service) portends the move towards a self-assessment system, which was one of the main focusses of the 1980

⁴⁶⁰ Staatsblad 1924 Number 576.

⁴⁶¹ Presidential Decree No 12/1976.

⁴⁶² Cabinet Decree No. 75/U/KEP/11/1966.

reform. This system had been recommended for developing countries with relatively weak and understaffed tax administration, although interestingly, this was not a precondition for improved taxpayer compliance and efficient administration.⁴⁶³ This era also saw the change of property tax from the IPEDA (contribution for regional development) to the LBT⁴⁶⁴ and the introduction of the Bea Perolehan Hak atas Tanah dan Bangunan (DLBA),⁴⁶⁵ which has become part of local taxes administered by either a district or municipal government.⁴⁶⁶

In this period, the DGT used the type-of-tax organisational structure. Alink and van Kommer argue that this organisational structure has both advantages and disadvantages.⁴⁶⁷ On one hand, it is able to group taxpayers of similar characteristics and facilitates a good understanding of a tax system for a particular tax type. It also promotes the integration of different functions (such as registration, auditing and collection) into a single department. However, it suffers from inefficiency and tends to be more expensive as there are redundancies of functions in each department. Taxpayers are also disadvantaged as they have to make multiple contacts with different parts of the tax office with possibly different requirements and procedures, leading to higher compliance costs.

⁴⁶³ Alink and Kommer, above n 120.

⁴⁶⁴ Law No 12 of 1985.

⁴⁶⁵ Law No 21 of 1997.

⁴⁶⁶ Law No 28 of 2009.

⁴⁶⁷ Alink and Kommer, above n 120.

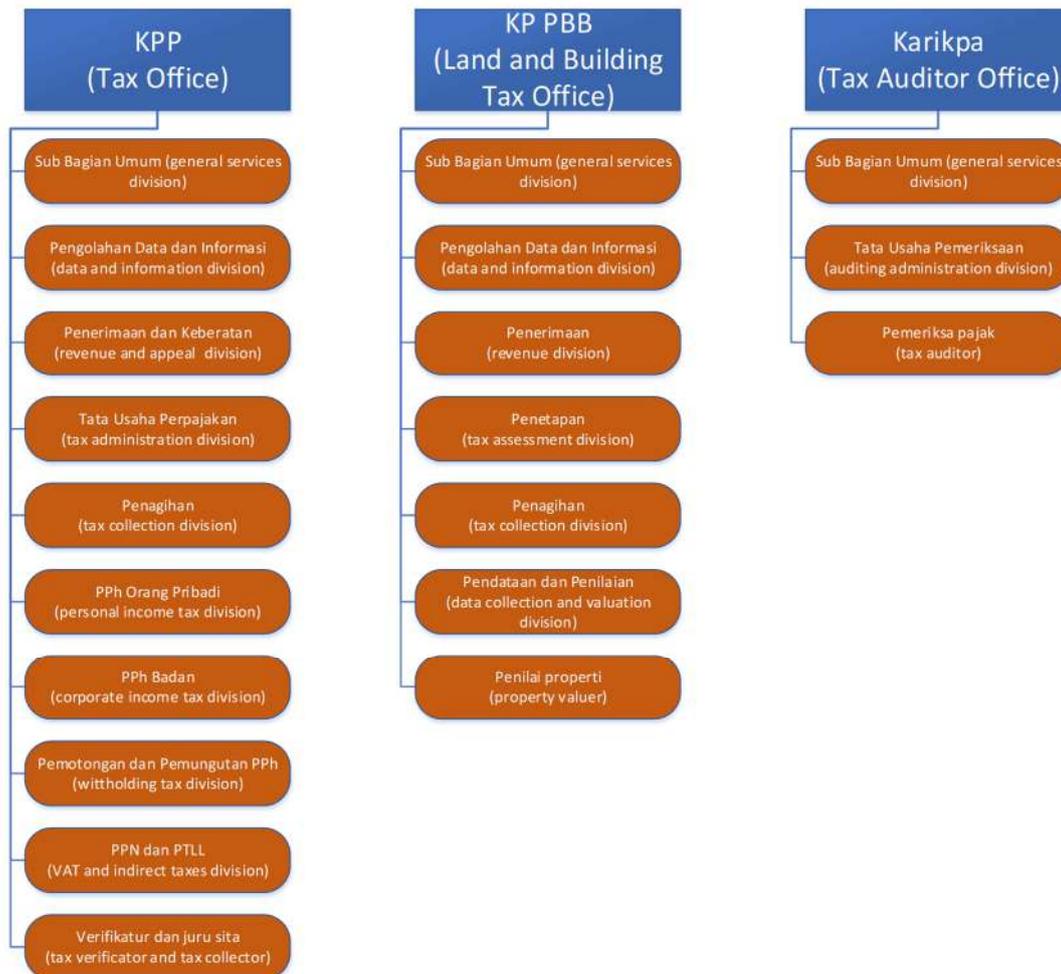


Figure III.4 DGT organisational structure⁴⁶⁸

In this period, there were different types of office for each tax type (Figure III.4).⁴⁶⁹ Income tax and VAT were administered by the KPP, whereas LBT and DLBA are administered by the KP PBB. In addition, there is the Karikpa, which handles tax auditing.

Interestingly, the KPP also had the authority to verify the accuracy of tax returns lodged by taxpayers (referred to as the verification process), which duplicated the Karikpa's function of auditing taxpayers. Taxpayers could be even more disadvantaged if the KP PBB were to step in, in relation to LBT payments. Hence, for taxation purposes, a particular taxpayer may have had to face three different offices. This clearly illustrates the duplication of functions, as described by Alink and van Kommer, which is inherent in this organisational type.⁴⁷⁰ This was

⁴⁶⁸ Minister of Finance Regulation No 94/KMK.01/1994.

⁴⁶⁹ Ibid.

⁴⁷⁰ Alink and Kommer, above n 120.

one of the reasons for the organisational change introduced in the tax administration reform project, as discussed in the following section.

C 2006–Now

As noted in Chapter I, a significant change in the tax administration reform pilot project was the introduction of a function-based organisational structure. As discussed in Chapter II, this new organisational structure was aimed to reduce duplication of functions found in the existing organisation. This was believed useful for improving taxpayer compliance, as it would make it easier for them to deal with the tax office. In that project, the LTO was basically organised as shown in Figure III.5.

The organisational structure described here generally was consistent with the organisation of the self-assessment system described in Figure II.2 in Chapter II (and reproduced in Figure III.3). For example, a taxpayer-to-be registered for an NPWP at the tax office through the taxpayer services division. They also lodged a tax return or other documents, such as appeal documents, through this division. Once they were registered as a taxpayer, they received tax guidance—for instance on how to do bookkeeping—and updates from their respective AR. These representatives were part of the taxpayer consultation and supervision division. They were also responsible for evaluating tax returns lodged by taxpayers and acted as the first gatekeepers for non-compliance detection. Any possible fraud detected at this stage was communicated with the taxpayer, with the possibility for the process to be transferred to tax auditors for more serious infringements. Administratively, this process was handled by the tax auditing division while the audit itself was handled by tax auditors. This process gave rise to tax assessment documents, which fell under the responsibility of tax collectors, who were coordinated by the tax collection division, for collection of any additional tax payable that could result from the audit (Figure III.3).

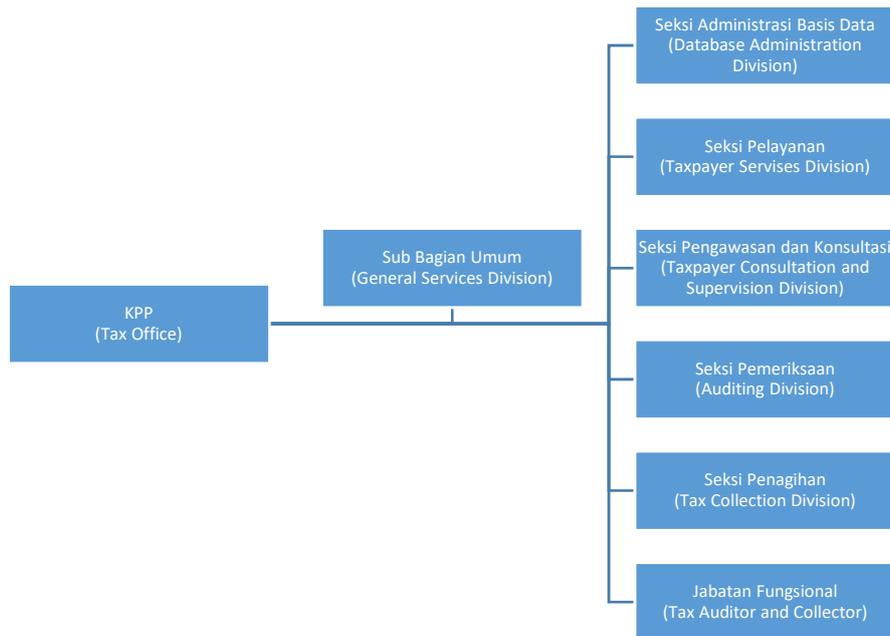


Figure III.5 Pilot office organisational structure: LTO⁴⁷¹

The organisation of the MTO and the STO generally followed a similar fashion. The main difference, in addition to the size of taxpayers being administered, was that the STO was tasked with administering individual taxpayers, in addition to small-sized corporate taxpayers. It was also required to extend the tax base by registering new taxpayers, individual or otherwise. Thus, a new division named Seksi Ekstensifikasi Perpajakan (taxpayer extensification division) was added to the organisational structure of the STO (article 37 Minister of Finance Regulation No 254/KMK.01/2004).⁴⁷² It also had four separate taxpayer consultation and supervision divisions to cover the wider geographical area and larger number of taxpayers that it needed to deal with (Figure III.6).

⁴⁷¹ Minister of Finance Regulation No 65/KMK.01/2002

⁴⁷² Minister of Finance Regulation No 254/KMK.01/2004.

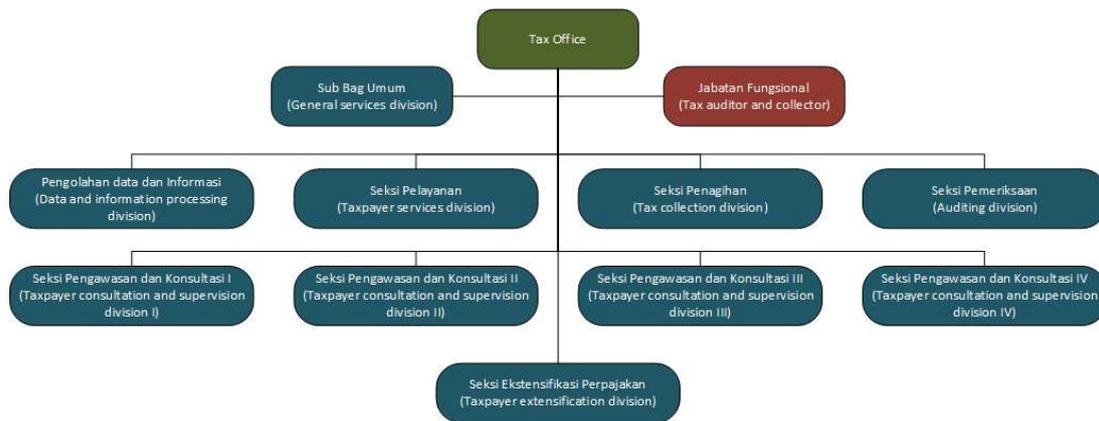


Figure III.6 Pilot office organisational structure: STO⁴⁷³

This pattern was then applied nationally, as briefly discussed in Chapter I. There were several changes in this context. One notable change was the separation of the AR role into two distinct groups: those with the responsibility for providing services to taxpayers and those tasked with taxpayer supervision.⁴⁷⁴ The first group was coordinated under the taxpayer consultation and supervision division I, while the latter was shared among the remaining divisions.⁴⁷⁵ Other minor changes included the addition of an internal supervision role to the general services division and the addition of a new responsibility for taxpayer education to the taxpayer extensification division.⁴⁷⁶

Both the MTO and STO now are generally under the coordination of a particular regional tax office. Taxpayers registered at the MTO are generally selected from those initially registered at the STO. Once a certain threshold is passed, a particular taxpayer will then be transferred from the STO to the MTO. This criterion generally is based on the amount of tax payments (80% of weight) and annual turnover reported in the tax return (20% of weight).⁴⁷⁷ Setting this criterion aside, the DGT retains the right to register a certain taxpayer in a particular tax office.

This basically has the consequence that it is possible for a taxpayer to be registered at the STO and then be transferred to a different type of tax office, such as the MTO, provided that the criteria are satisfied. If they are transferred but no longer satisfy the criteria, such

⁴⁷³ Ibid.

⁴⁷⁴ Minister of Finance Regulation No 79/PMK.01/2015.

⁴⁷⁵ Minister of Finance Regulation No 206.2/PMK.01/2014.

⁴⁷⁶ Ibid.

⁴⁷⁷ Director General Regulation No 28/PJ/2012.

taxpayers can revert back to the STO where they were initially registered. Director General of Taxes Regulation No Per-15/PJ/2016 provides that a taxpayer’s position will be assessed no longer than five years—but this may be as soon as three years if considered necessary (article 9 sub section (2) part (c))—after the last time that the taxpayer’s position was evaluated (article 9 sub section (2) part (a)).⁴⁷⁸ Such back-and-forth movement may increase taxpayers’ compliance costs.

V REVENUE PERFORMANCE

This section provides a description of tax revenue in the period 2004–2016. Overall, it can be seen that in this period, taxation continues to be the main contributor of the total revenue in Indonesia, averaging more than 60%, and seems likely to remain at a similar state in the future (see Figure I.5, reproduced here as Figure III.7). This trend generally builds on the fact that taxes have been designed to be the main source of revenue since the 1984 tax reform, when the Indonesian Government was realised that oil and gas revenue, which traditionally was the main source of income, would eventually no longer be sustainable.

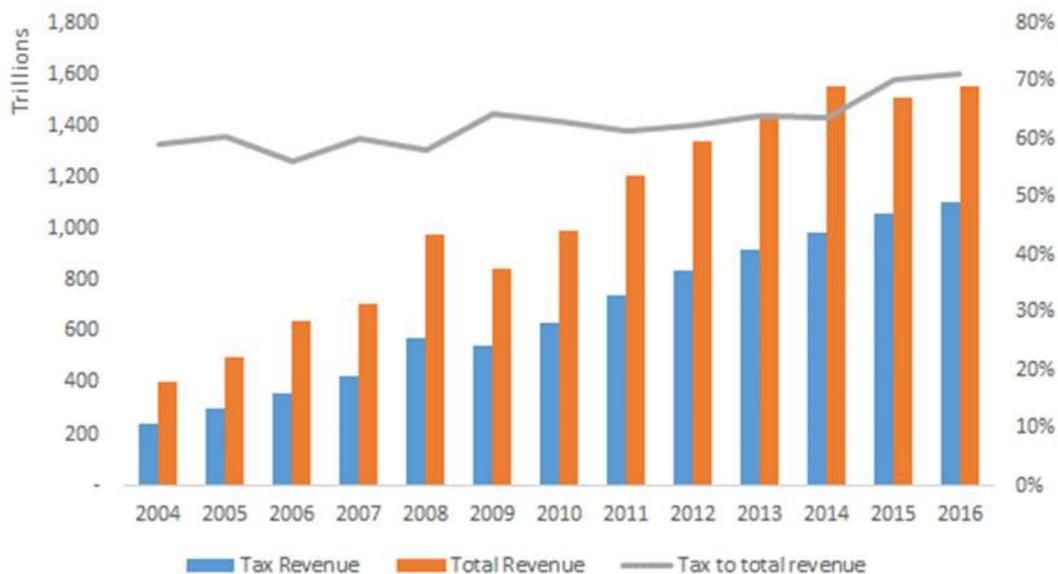


Figure III.7 Tax revenue contribution towards total revenue (2004–2016)

⁴⁷⁸ Director General Regulation No 15/PJ/2016.

Table III.3 Tax revenue composition in percentage (2004–2016)⁴⁷⁹

Tax type	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
DLBA ¹	1	1	1	1	1	1	1	0	0	0	0	0	0
Income tax ²	40	47	46	46	44	49	48	48	46	45	47	52	57
Income tax ³	10	12	12	10	13	9	9	10	10	10	9	5	3
LBT ⁴	5	5	6	6	4	4	5	4	3	3	2	3	2
Other taxes	1	1	1	1	1	1	1	1	1	1	1	1	1
VAT and STLG	43	34	34	36	37	35	37	37	40	42	42	40	37
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

¹ Duty on land and building acquisition (became local tax in 2011)

² Non-oil and gas

³ Oil and gas

⁴ Land and building tax

Income tax as shown in Table III.3, a combination of oil and gas and non-oil and gas based, is the main contributor of revenue, followed by VAT and sales tax on luxury goods. Smaller taxes such as Duty of Land and Building Acquisition and Land and Building Tax levied outside plantation, mining and forestry, are transferred to local governments and thus do not show in this figure in the period after 2010.

What is interesting is that while Indonesia's GDP seems to grow at an average rate of approximately 5% during 2004–2016, tax revenue does not follow a similar growth trend. In fact, tax revenue growth is in a declining state after a sharp increase in 2008 (Figure III.8), which is possibly due to the tax amnesty programme in that year.

⁴⁷⁹ This chart is based on data obtained from Government of Indonesia financial report (audited) from 2014 to 2017. The 2017 report is not available at the time of writing.



Figure III.8 Tax revenue and GDP growth (2005–2016)⁴⁸⁰

Similarly, the tax revenue-to-GDP ratio shows a declining pattern. Despite the continuing increase in GDP, the share of tax revenue to GDP seems to be declining over time (Figure III.9). What can be inferred here is that while the tax base continues to grow, tax revenue surprisingly declines. A number of factors may contribute to this decline. For example, OECD noted that in 2015, there was a general declining pattern in the tax-to-GDP ratio of several Asian countries such as Indonesia, Kazakhstan and Malaysia. This decline was largely driven by the decrease in corporate tax revenues as well as in revenues from specific sources such as excises, customs and export duties.⁴⁸¹ Moreover, compared with neighbouring countries, Indonesia's tax revenue-to-GDP ratio seems to be lower as well (Figure III.10).

⁴⁸⁰ This chart is based on data obtained from the World Bank's World Development Indicator and the Government of Indonesia financial report (audited) from 2014 to 2016. The 2017 report is not available at the time of writing.

⁴⁸¹ OECD, *Falls in Tax Revenue Weaken Domestic Resource Mobilisation In Developing Asia* (20 July 2017) <<https://www.oecd.org/indonesia/revenue-statistics-in-asia-2017-falls-in-tax-revenue-weaken-domestic-resource-mobilisation-in-developing-asia.htm>>.

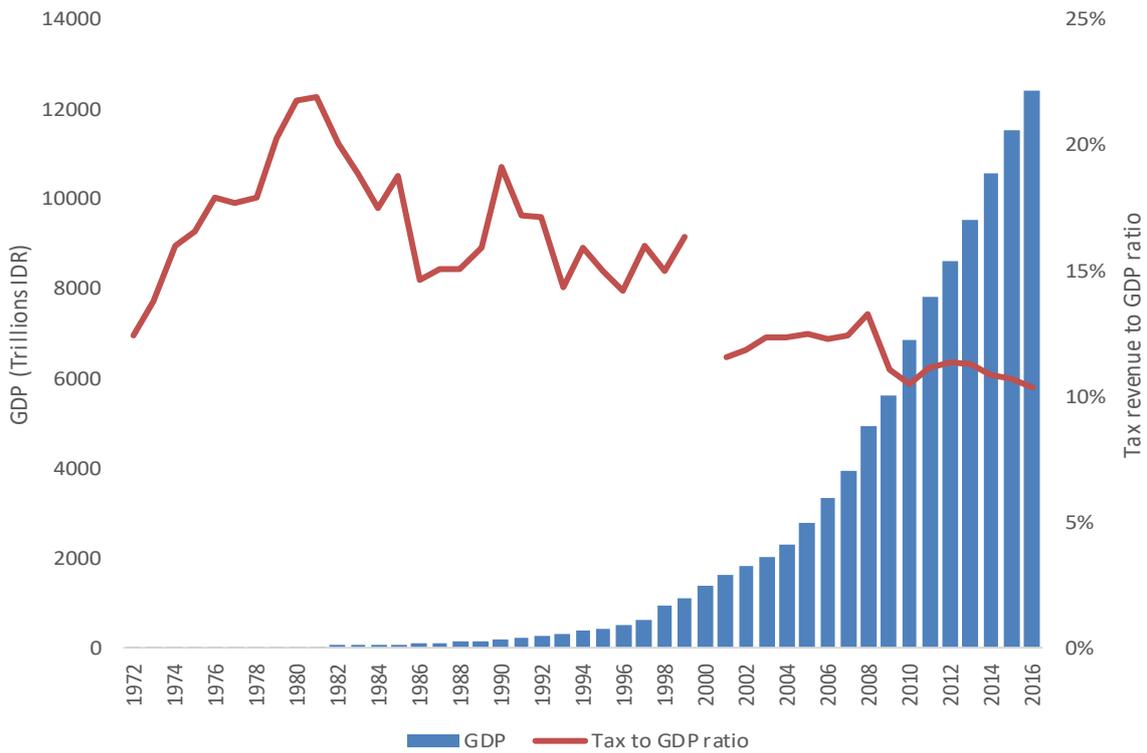


Figure III.9 Tax revenue-to-GDP ratio (1972–2016)⁴⁸²

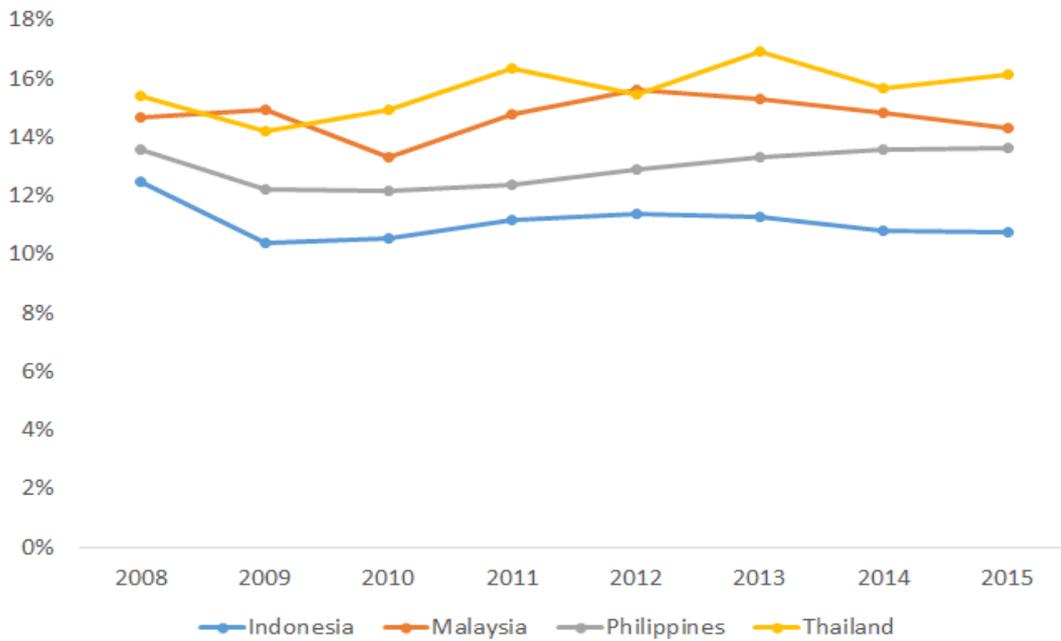


Figure III.10 Tax revenue-to-GDP ratio (2008–2015): South East Asia comparison⁴⁸³

⁴⁸² This chart is based on data obtained from the World Bank’s World Development Indicator and Government of Indonesia financial report (audited) from 2014 to 2016.

⁴⁸³ This chart is based on data obtained from the World Bank’s World Development Indicator.

Another important indicator often used by economists in this regard is tax buoyancy. This indicator basically refers to the measure of how tax revenues vary with GDP.⁴⁸⁴ It measures the responsiveness of tax revenue to the combined changes of income and other discretionary changes such as changes in tax rates, tax base or tax administration.⁴⁸⁵ The base to be used as the denominator is normally GDP in real terms, although other bases, such as consumption level, are also possible.⁴⁸⁶ As a result, tax buoyancy reflects the responsiveness of tax receipts to economic growth.⁴⁸⁷ The Indonesian tax buoyancy, calculated over several five-year periods by regressing the log of tax revenue on the log of GDP, is presented in Figure III.11.

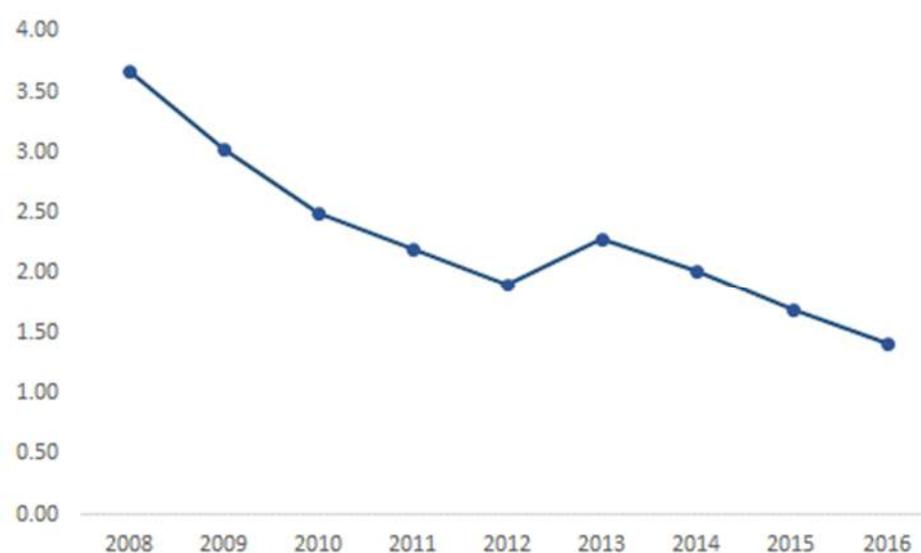


Figure III.11 Tax buoyancy in Indonesia (2008–2016)⁴⁸⁸

It can be seen in Figure III.11 that tax buoyancy in Indonesia between 2008 and 2016 is in a declining state, which indicates the weak ability of the Indonesian tax authority to translate the overall improved Indonesian economy into tax revenue. This is consistent with the decreasing tax-to-GDP ratio at a time when the GDP is consistently increasing (Figure III.9).

⁴⁸⁴ Vincent Belinga et al, 'Tax Buoyancy in OECD Countries' (2014) *IMF Working Paper No 14/110*.

⁴⁸⁵ Jonah P. Tibubos, 'Buoyancy and Elasticity of the Income Tax: 1998-2007' (2009) XXI(I) *NTRC Tax Research Journal* 1.

⁴⁸⁶ Jonathan Haughton, 'Estimating Tax Buoyancy, Elasticity and Stability' (1998) *African Economic Policy Paper Discussion Paper No 11*.

⁴⁸⁷ Jane H Leuthold and Tchetché N'Guessan, 'Tax Buoyancy vs Elasticity in Developing Economy' (1986) *BEER Faculty Working Paper No. 1272*.

⁴⁸⁸ This chart is based on data obtained from the World Bank's World Development Indicator and the Government of Indonesia financial statement (2004-2016).

This can explain the failure of the Indonesian tax authority to meet its tax revenue targets in the last few years (Figure III.12), although one may question how these targets are set.⁴⁸⁹

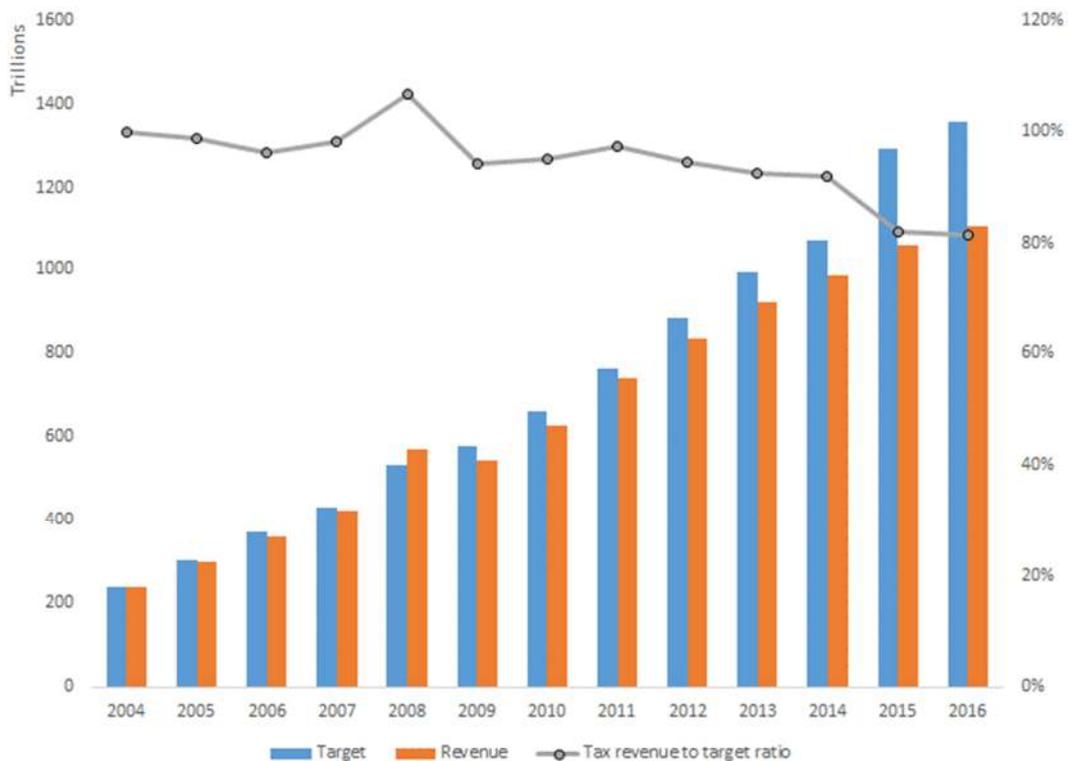


Figure III.12 Tax revenue to target ratio (2004–2016)⁴⁹⁰

VI CONCLUSION

This chapter has highlighted the working condition of the tax administration in Indonesia. Arranged chronologically, it outlines two distinct themes: the legal system of the tax system and the organisation of the tax authority tasked with enforcing that system. The first theme describes the development of the legal environment of the tax system that has been applied in Indonesia, using the tax reform that took place in 1984 as the benchmarking point. It can be seen here that the Indonesian taxation system has changed over time from the official assessment system inherited from the Dutch colonial administration to the self-assessment system initially applied in the 1984 tax reform. The organisation tasked with the implementation of that legal system, which acts as the second theme in this chapter, has changed over time as well. It changed from a type-of-tax system mainly focussing on an

⁴⁸⁹ The tax revenue target is codified in a legislation set annually. As such, it is a result of a political process that reflects a compromise between the Indonesian government and the parliament.

⁴⁹⁰ This chart is based on data obtained from the Government of Indonesia financial statement (2004–2016).

enforcement approach, to a function-based approach focussing on treating taxpayers as clients. These changes reflect the changing nature of how the Indonesian tax authority views taxpayers and seems to be in line with the mainstream ideas developed in the contemporary literature, as outlined in detail in Chapter II.

The next chapter deals with the approach taken in this thesis to address the questions proposed in Chapter I; and how the changes outlined in this chapter appear to be unable to deliver tax revenue currently required.

CHAPTER IV

RESEARCH METHODOLOGY

I INTRODUCTION

Research methods are mere servants ... in a study. (David Silverman)⁴⁹¹

This chapter details the methodological approach followed in this study. It begins with a general description of the epistemological foundation and then moves on to the methodological approaches selected for this study. Afterwards, a more detailed technical discussion of the research strategy is presented. This includes participant selection, data collection strategy and data analysis.

The approach taken in this study—mainly as a result of the chosen methodology—is that data analysis took place at the same time as data collection. Thus, subsequent data collection was driven by the results of the analysis of data collection undertaken previously. However, for illustration purposes in this chapter, data collection and analysis are described chronologically. The chapter concludes with a discussion regarding rigour and the strategy used in this thesis to maintain it.

II RESEARCH HIERARCHY

It is recognised in the literature that tax administration and compliance are related to cultural issues. Yong and Martin, for example, find that in New Zealand, the same cultural trait of collectivism has different effects on tax compliance for Asian and Pacific/Maori taxpayers.⁴⁹² For New Zealand taxpayers who belong to the Asian ethnic group, collectivism has enabled them to pay taxes on time. This primarily is because of the existence of ready financial assistance from their community to assist them with tax payments should the need arise. Further, fear of being shamed in their group as a result of failure to pay taxes ensures these taxpayers keep accurate records. In contrast, for Maori/Pacific taxpayers, collectivism can

⁴⁹¹ David Silverman, *Doing Qualitative Research* (SAGE Publications Ltd, 4th ed, 2013).

⁴⁹² Sue Yong and Fiona Martin, 'Tax Compliance and Cultural Values: The Impact of "Individualism and Collectivism" on the Behaviour of New Zealand Small Business Owners' (2016) 31(2) *Australian Tax Forum* 289.

hamper payment of taxes as these taxpayers place more emphasis on the needs of the group. As such, there is often cash shortages in their businesses as a result of the contributions they make to their group's finance, which adds to their difficulties in paying taxes on time.

It can be seen here that because of differences in culture, the same trait of collectivism, in term of paying taxes, can be both advantageous (for Asian) and detrimental (for Maori/Pacific) taxpayers. This kind of relationship makes it problematic for policy makers to adopt a universal approach. For example, it cannot be assumed that just because a penalty system works fine in the US, it will work just as well in other countries, because cultural differences matter.⁴⁹³

Recognising this, it was decided that this research should begin by taking an interpretivist worldview (Figure IV.1). This is because this worldview sees reality not as a universal structure but rather, it is to be interpreted within its context. In other words, reality is seen as individualised rather than universalised.⁴⁹⁴ The researcher's job is to interpret data presented by the participants and generate a theory—or pattern of meanings—from these data.⁴⁹⁵

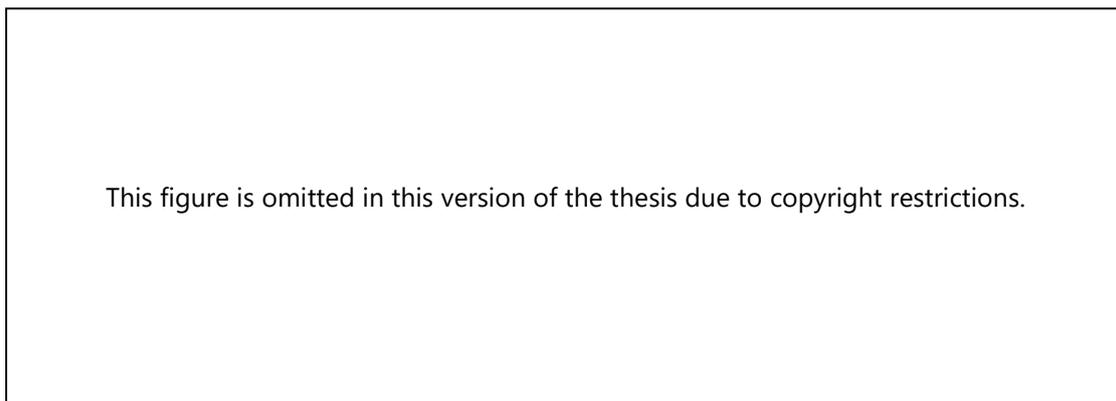


Figure IV.1 Research hierarchy⁴⁹⁶

This paradigm fits with the research questions outlined in Chapter I, which seek to uncover participants' views of effective tax administration in Indonesia. These participants were the experts in this study because of their first-hand experience working as part of the pilot

⁴⁹³ George T. Tsakumis, Anthony P. Curatola and Thomas M. Porcano, 'The Relation Between National Cultural Dimensions and Tax Evasion' (2007) 16(2) (2007/01/01/) *Journal of International Accounting, Auditing and Taxation* 131.

⁴⁹⁴ Uwe Flick, *An Introduction to Qualitative Research* (SAGE Publications Ltd, 4th ed, 2009).

⁴⁹⁵ John W Creswell and J David Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches* (SAGE Publications, 5th ed, 2018).

⁴⁹⁶ Alison Jane Pickard, *Research Methods in Information* (Facet, 2nd ed, 2013).

project, as tax officials or simply because of their continuing interaction with the DGT. The researcher thus only attempted to interpret their experience to produce a set of interrelated concepts that explain the phenomenon being studied (formulated as research questions in Chapter I). More detailed discussion on this matter is presented in Section II.A.

The choice of the interpretivist worldview in this research informs the use of a qualitative methodology.⁴⁹⁷ Following this approach, the researcher examines the research topic from the participants' perspectives—as they are the ones who have first-hand experience of the topic being studied—and attempts to make discoveries that contribute to the development of empirical knowledge (further discussion is presented in Section II.B.).⁴⁹⁸ Most data under this methodology, in the context of this research, were collected via in-depth interviews or document archives, some of which were provided by the participants (discussed in Section II.C.3). The researcher categorised and organised these data *bottom up* to inductively formulate more abstract themes,⁴⁹⁹ following the steps prescribed in the grounded theory method as the main research method (discussed in Section II.C.4). This particular method was chosen because of its emphasis on building theories with practical applications,⁵⁰⁰ thus, it was suitable for the aim of this research to make a practical contribution (explained in Chapter I). The overall strategy followed in this research in doing qualitative methodology is presented in Section II.C.

In grounded theory, researchers work back and forth between themes and raw data until they arrive at a comprehensive set of themes (discussed in Section II.C.4). A researcher therefore works deductively to continuously check the emerging themes with the underlying data. This sometimes leads to more participants being recruited,⁵⁰¹ a process often referred to as theoretical sampling (discussed in Section II.C.2.). To this end, the researcher consults with participants so that they have the opportunity to contribute to the emerging themes and at the same time, add to the rigour of the research (discussed in Section III).

⁴⁹⁷ Creswell and Creswell, above n 495, 7.

⁴⁹⁸ Juliet M. Corbin and Anselm L. Strauss, *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory* (SAGE Publications, Inc, 3rd. ed, 2008).

⁴⁹⁹ Creswell and Poth, above n 140.

⁵⁰⁰ Glaser and Strauss, above n 133.

⁵⁰¹ Creswell and Creswell, above n 495, 181.

The following sections discuss the issues touched on briefly above in more detail, starting with the choice of research paradigm.

A Research Paradigm

Kuhn sees a paradigm either as an 'entire constellation of beliefs, values, techniques, and so on shared by the members of a given community' or 'as shared examples'.⁵⁰² Guba, on the other hand, refers to a paradigm as 'a basic set of beliefs that guides action, whether of everyday garden variety or action taken in connection with a disciplined inquiry'.⁵⁰³ Similarly, Creswell and Creswell view a paradigm—they call it a 'worldview'—as a 'general philosophical orientation about the world and the nature of research that a researcher brings to a study'.⁵⁰⁴ It is basically 'a set of basic and taken-for-granted assumptions'⁵⁰⁵ that a researcher adopts.⁵⁰⁶ A paradigm can be viewed as a set of examples or model to be followed or a recognised system of doing things.⁵⁰⁷ It starts with what Kuhn calls 'normal science', which generally refers to research based on previous studies acknowledged as providing a basis for further enquiry.⁵⁰⁸ The choice of paradigm can fall at any point between positivism and non-positivism (Figure IV.2).⁵⁰⁹ These are discussed further in the following sections.

⁵⁰² Thomas S. Kuhn, *The Structure of Scientific Revolutions, with an introductory essay by Ian Hacking* (Chicago: University of Chicago Press, 4th ed, 2012).

⁵⁰³ Egon G Guba, 'The Alternative Paradigm Dialog' in Egon G Guba (ed), *The Paradigm Dialog* (SAGE Publications, 1990) 17.

⁵⁰⁴ Creswell and Creswell, above n 495, 5.

⁵⁰⁵ Mark Saunders, Philip Lewis and Adrian Thornhill, *Research Methods for Business Students* (Harlow Pearson Education, 7th ed, 2016).

⁵⁰⁶ Alexander M Clark, 'The Qualitative-Quantitative Debate: Moving from Positivism and Confrontation to Post-Positivism and Reconciliation' (1998) 27(6) *Journal of Advanced Nursing* 1242.

⁵⁰⁷ Norman Blaikie, 'Paradigm' in Michael S. Lewis-Beck, Alan Bryman and Tim Futing Liao (eds), *The SAGE Encyclopedia of Social Science Research Methods* (SAGE, 2004) vol 2, 785.

⁵⁰⁸ Kuhn, above n 502.

⁵⁰⁹ Margaret Anne McKerchar, *Design and Conduct of Research in Tax, Law and Accounting* (Lawbook Co., 2010).

This figure is omitted in this version of the thesis due to copyright restrictions.

Figure IV.2 Research paradigm continuum⁵¹⁰

1 **Positivism**

(a) **General Principles**

The label *positivism* originates from the word *posited*, which means *given*, which indicates its emphasis on what is given.⁵¹¹ It places great importance on examining cause and effect relationships.⁵¹² This suggests that certain events would eventually lead to a consequence, implying that there is a certain law that governs the world. As a result, a researcher observes a reality with a view to uncovering this law.⁵¹³ The proponents of this traditional approach to research claim it is similar to that used in the natural and physical sciences.⁵¹⁴

This stance generally argues that reality—which is observable, measurable, stable and exists *out there*⁵¹⁵—has to be studied using scientific procedures.⁵¹⁶ Further, it is said that there are constant and universally applicable laws that can be used to explain life events occurring in the world.⁵¹⁷ In understanding these laws, careful observation of social events is essential. This observation must be conducted in such a way—normally at arm’s length—to maintain

⁵¹⁰ Ibid, 71.

⁵¹¹ Saunders, Lewis and Thornhill, above n 505.

⁵¹² Wing Hong Chui, 'Quantitative Legal Research' in Michael McConville and Wing Hong Chui (eds), *Research Methods for Law* (Edinburgh University Press, 2007) 46.

⁵¹³ Saunders, Lewis and Thornhill, above n 505.

⁵¹⁴ John Gill and Phil Johnson, *Research Methods for Managers* (London : Paul Chapman Publishing, 3rd ed, 1997).

⁵¹⁵ Sharan B. Merriam and Elizabeth J. Tisdell, *Qualitative Research: a Guide to Design and Implementation*, The Jossey-Bass Higher and Adult Education Series (Jossey-Bass, 4th ed, 2016).

⁵¹⁶ David E Gray, *Doing Research in The Real World* (SAGE, 3rd ed, 2014).

⁵¹⁷ Sharon M. Ravitch and Nicole Mittenfelner Carl, *Qualitative Research: Bridging the Conceptual, Theoretical, and Methodological* (SAGE Publications, 2016).

objectivity and neutrality. This would enable the researcher to uncover the underlying truth that causes an event to take place. Therefore, a scientific method should be adopted in studying social reality⁵¹⁸ with an emphasis on quantitative measurement to understand the world.⁵¹⁹ Theories can then be developed based on these observations. These theories would then be continuously tested so that in the end, they become a general law that applies to similar situations. In an organisational context, these laws would then be used to make explanations or predictions about events or behaviour in organisations.⁵²⁰

In the social science context, positivists generally accept that society as a whole is more important than individuals. They believe that there is a general social law that govern the operation of a society, just like there are natural laws that control the behaviour of objects such as plants, animals or chemicals.⁵²¹ These laws are a result of the way a society is organised and therefore are beyond human influence. In this context, it is believed that first, the researcher must maintain objectivity and must not allow their personal view to influence the conduct of the research or data analysis. They achieve this by devising an appropriate sampling technique—generally relying on random assignment—and maintaining their distance from the people they study.

Second, positivists argue that replicability is of paramount importance. As such, research must be transparent to scrutiny by other researchers. For this reason, it is argued that quantitative approaches are more reliable as they are highly structured.

Third, research should produce quantitative data to assist in pattern or trend identification. This helps establish the relationships between aspects of social structure and behaviour, which is useful for uncovering general laws that govern the operation of society. For this purpose, they generally follow strict procedures to establish a causal relationship⁵²² and facilitate replication.⁵²³ This relationship is then used to make generalisations, which are

⁵¹⁸ Alan Bryman, *Social Research Methods* (Oxford University Press, 4th ed, 2012).

⁵¹⁹ Kirsty Williamson, Frada Burstein and Sue McKemmish, 'The Two Major Traditions of Research' in Kirsty Williamson (ed), *Research Methods for Students, Academics and Professionals* (Centre for Information Studies, Charles Sturt University, 2nd ed, 2002) 25.

⁵²⁰ Saunders, Lewis and Thornhill, above n 505.

⁵²¹ Patrick McNeill and Steve Chapman, *Research Methods* (Routledge, 3rd ed, 2005).

⁵²² McKerchar, above n 509, 72.

⁵²³ Gill and Johnson, above n 514.

used to make explanations or predictions.⁵²⁴ Objectivity is placed at the forefront of an inquiry;⁵²⁵ as a result, the researcher—as stated above—maintains a distant position from the object of the research.⁵²⁶

Researchers normally use existing theories to formulate a set of hypotheses. These hypotheses are then tested by using data collected from observations or experiments. If the hypotheses are not consistent with the data, they are rejected and regarded as false. However, if they are supported by the data, they are temporarily supported until proven otherwise.⁵²⁷ Positivists, therefore, use the results of their studies to refine existing theories.

Although generally related to quantitative methodology, positivism can also be found in legal research. Here, researchers use a doctrinal approach to deduce the meaning of a certain legal concept. In this case, researchers maintain their objectivity by relying on legal descriptions found in sources such as legislation or case law.⁵²⁸

(b) Criticisms

Despite its once dominant position, positivism is not without its critics. Lincoln, Lynham and Guba, for instance, cite 'naïve realism' as one of its main weaknesses.⁵²⁹ The main idea of naïve or direct realism is that what is experienced through our senses is able to represent reality accurately.⁵³⁰ Thus, researchers should focus their attention on observing what is seen.⁵³¹

However, there are limits to the capabilities of human senses. This limits their ability to portray the complete truth. What can be seen may not be sufficient for describing an entire truth of reality; just like an umpire whose line of sight is blocked by other players in football, for instance.⁵³² As reality may include both observable and non-observable events, relying on

⁵²⁴ Saunders, Lewis and Thornhill, above n 505.

⁵²⁵ Creswell and Creswell, above n 504.

⁵²⁶ Pickard, above n 496.

⁵²⁷ Williamson, Burstein and McKemish, above n 519.

⁵²⁸ McKerchar, above n 509, 73.

⁵²⁹ Yvonna S. Lincoln, Susan A. Lynham and Egon G. Guba, 'Paradigmatic Controversies, Contradictions, and Emerging Confluences, Revisited' in Norman K. Denzin and Yvonna S. Lincoln (eds), *The SAGE Handbook of Qualitative Research* (SAGE, 4th ed, 2011) 97.

⁵³⁰ Saunders, Lewis and Thornhill, above n 505.

⁵³¹ Bryman, above n 518.

⁵³² Saunders, Lewis and Thornhill, above n 505.

what can be observed—as believed by positivists—would not be sufficient to create an accurate picture of reality (Figure IV.3).

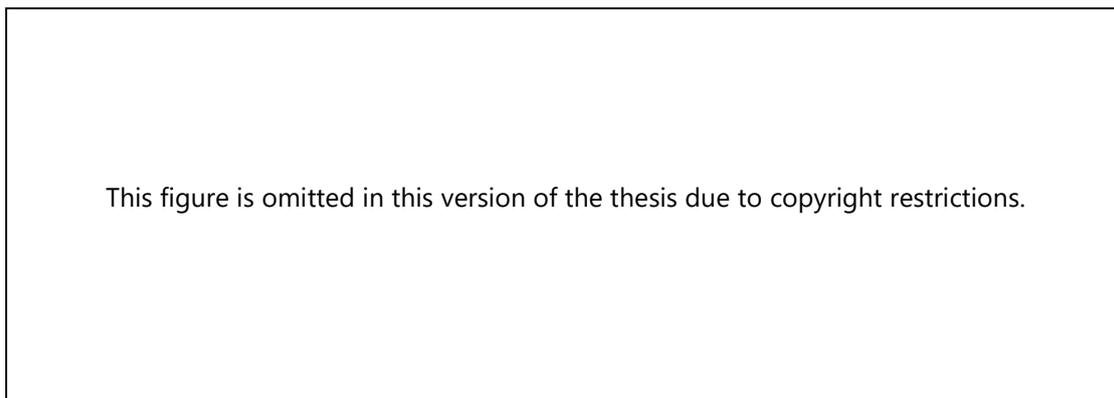


Figure IV.3 Events in reality: observable and non-observable⁵³³

Further, as positivism mainly focusses on measuring realities, it reduces experience, freedom, choice, individuality and moral responsibility to measurable objects and treats the universe as a machine.⁵³⁴ Human beings in this tradition are reduced to entities who possess a set of controlled, predictable and governed behaviours, just like a machine.⁵³⁵ The world in positivists' eyes, according to Crotty, is not the world that people live in and experience.⁵³⁶ According to Glaser and Strauss, because it treats individuals as passive and essentially being controlled with no determination, positivism poses a threat to open-ended, creative and humanitarian aspects of social behaviour.⁵³⁷ The two go further to say that at the time when academics' views shifted from theory generation to theory verification, theory development was halted or worse, neglected.⁵³⁸ In an accounting context, Gaffikin asserts that positivism limits the search for knowledge only to scientific methods even though these methods have failed to provide the basis for an accounting theory.⁵³⁹ Similarly, in law studies, positivism is seen to be unable to show that the law has a moral mechanism capable of compelling people

⁵³³ Ibid.

⁵³⁴ Louis Cohen, Lawrence Manion and Keith Morrison, *Research Methods in Education* (Taylor and Francis, 7th ed, 2011).

⁵³⁵ Hussein Assalahi, 'The Philosophical Foundations of Educational Research: a Beginner's Guide' (2015) 3(3) *American Journal of Educational Research* 312.

⁵³⁶ Michael Crotty, *The Foundations of Social Research: Meaning and Perspective in the Research Process* (Allen & Unwin, 1998).

⁵³⁷ Cohen, Manion and Morrison, above n 534, 15.

⁵³⁸ Glaser and Strauss, above n 133.

⁵³⁹ Michael Gaffikin, 'Being in Accounting for a Time' in Jane Baxter and Chris Poullaos (eds), *Practices, Profession and Pedagogy in Accounting: Essays in Honour of Bill Birkett* (Sydney University Press, 2009) 55.

to obey their legal obligations.⁵⁴⁰ As such, positivism may not be applicable for studies that require understanding of human behaviour.⁵⁴¹ It in fact has been called 'one of the heroic failures of modern philosophy'.⁵⁴²

In light of this view, positivism is considered unsuitable for the purpose of this study as outlined in Chapter I, as it mainly deals with human interaction within the Indonesian tax administration reform. In the next section, non-positivism—the right side in Figure IV.2—is discussed as an alternative to positivism.

2 Non-positivism

(a) General Principles

On the right side of Figure IV.2 lies the non-positivist paradigm. The main non-positivist paradigm according to Gray is interpretivism, which essentially is an array of approaches that includes, for example, phenomenology, realism, hermeneutics and naturalistic inquiry.⁵⁴³ As Thomas Schwandt puts it, interpretivism is basically a challenge to the use of scientific methods as advocated by positivists.⁵⁴⁴

As argued by Lincoln and Guba, interpretivists believe that realities are like layers of onions, one within another.⁵⁴⁵ Each layer represents a different view of reality where none is truer than the other because a person's view of the world is real for that person.⁵⁴⁶ As such, there are multiple realities—or interpretations—of a single event.⁵⁴⁷ As such, the duty of a researcher is constructing, rather than finding, knowledge. Data collection and analysis needs to take this into account.⁵⁴⁸

As different people have different interpretations of a single event, interpretivists tend to be sceptical regarding attempts to formulate a single law that applies universally. A phenomenon—as they believe it—does not come together to form a single truth. Instead, it

⁵⁴⁰ Stephen Perry, 'Beyond the Distinction between Positivism and Non-Positivism' (2009) 22(3) *Ratio Juris* 311.

⁵⁴¹ McKerchar, above n 509, 73.

⁵⁴² Malcolm Williams and Tim May, *Introduction to the Philosophy of Social Research, Social Research Today* (Routledge, 1996).

⁵⁴³ Gray, above n 516.

⁵⁴⁴ Crotty, above n 536.

⁵⁴⁵ Egon G. Guba and Yvonna S. Lincoln, *Effective Evaluation* (Jossey-Bass Publishers, 1981).

⁵⁴⁶ McKerchar, above n 509, 75.

⁵⁴⁷ Merriam and Tisdell, above n 515.

⁵⁴⁸ Juliet Corbin, 'Taking an Analytic Journey' in Janice M. Morse et al (eds), *Developing Grounded Theory: The Second Generation, Developing Qualitative Inquiry* (Left Coast Press, Inc., 2009) 36.

diverges into multiple truths. These layers of truths cannot be understood using dependent and independent variable analysis because they are interrelated. It is this pattern that needs to be revealed, not for the purpose of making prediction or control, but for obtaining an understanding. Studies to obtain such understanding should be conducted from within, rather than at the arm's-length distance suggested by positivists.⁵⁴⁹

Interpretivists endeavour to produce a new, richer understanding of social worlds and context by collecting information that is meaningful to research participants.⁵⁵⁰ As such—with its focus on complexity, richness, multiple interpretations and meaning-making—interpretivism is a subjective endeavour. The resulting knowledge and findings are only true for a given context.⁵⁵¹ As a result, generalisation in a statistical context cannot be—or is not intended to be—made. While positivism aims to generalise, interpretivism, on the contrary, seeks to individualise. It is in this context that interpretivism is viewed as being more suitable for studying a human social phenomenon. Table IV.1 provides a comparison between positivism and interpretivism.

Table IV.1 Comparison of positivism and interpretivism⁵⁵²

Ontology	Epistemology	Method
Positivism Real, external, independent. One true reality (universalism). Granular (things). Ordered.	Scientific method. Observable and measurable facts. Law-like generalisations. Numbers. Causal explanation and prediction as contribution.	Typically deductive, highly structured, large samples, measurement, typically quantitative methods of analysis, but a range of data can be analysed.
Interpretivism Complex, rich. Socially constructed through culture and language. Multiple meanings, interpretations, realities. Flux of processes, experiences, practice.	Theories and concepts too simplistic. Focus on narratives, stories, perceptions and interpretations. New understandings and worldviews as contribution.	Typically, inductive. Small samples, in-depth investigations, qualitative methods of analysis, but a range of data can be interpreted.

⁵⁴⁹ Cohen, Manion and Morrison, above n 534.

⁵⁵⁰ Saunders, Lewis and Thornhill, above n 505.

⁵⁵¹ McKerchar, above n 509, 75.

⁵⁵² Extracted from Saunders, Lewis and Thornhill, above n 505.

(b) Criticisms

Interpretivism—much like positivism—attracts several criticisms as well. One is Giddens’s assertion that the assumption that people continuously monitor their conduct—and as a result are aware of their intentions and actions—is often misleading.⁵⁵³ He argues that people proceed with their actions normally without such reflective monitoring. Self-reflections, he continues, only occur when their actions are under inquiry, disturbed or broken down.

Blaikie continues by objecting to the principle that researchers merely portray people’s account of their actions. This is because—as is often recognised as linguistic fallacy—there is more to reality than what is expressed by participants. As Rex puts it succinctly, there is a possibility for a social actor to be *falsely conscious* in defining the situation in which patterns of social relations and institutions are rooted.⁵⁵⁴ Further, relying solely on participants’ accounts may cause difficulties in maintaining trustworthiness and dependability of the inquiry.⁵⁵⁵ Thus, Rex asserts that it is imperative that sociologists make an attempt to seek a perspective beyond what is expressed by that actor.⁵⁵⁶ There is a concern that interpretivists seal themselves from the world outside that of their participants by setting up boundaries around their participants’ own behaviours.⁵⁵⁷

Despite these criticisms, the interpretivist worldview seems to be more appropriate as a basis for the research endeavour reported in this thesis. This is because this thesis largely deals with interaction among tax officials within the Indonesian tax administration. They have created their own views of how Indonesian taxation should be administered. As stated in Chapter I, the focus of this thesis is on optimising tax revenue from the internal management perspective, particularly with regard to its human resources. For this reason, the voices and experiences of those officials are of importance. Therefore, the interpretivist worldview is chosen as the methodological foundation for the research reported in this thesis. Within this worldview, the grounded theory approach is used. This approach develops an explanation (a theory) of a process or interaction based on participants’ first-hand experience of that

⁵⁵³ Norman Blaikie, 'Interpretivism' in Michael S. Lewis-Beck, Alan Bryman and Tim Futing Liao (eds), *The SAGE Encyclopedia of Social Science Research Methods* (SAGE Publications, 2004) vol 2, 508.

⁵⁵⁴ John Rex, *Approaches to Sociology: an Introduction to Major Trends in British Sociology* (Routledge & Kegan Paul, 1974).

⁵⁵⁵ Assalahi, above n 535.

⁵⁵⁶ Rex, above n 554.

⁵⁵⁷ Cohen, Manion and Morrison, above n 534.

process.⁵⁵⁸ For this reason, this approach is part of the interpretive worldview because it relies on the participants' own views rather than using established theories from the literature. Further, it puts participants at the forefront of the research and repositions the researcher from an 'all-knowing analyst' to simply an 'acknowledged participant'.⁵⁵⁹

B Research Methodology

1 Qualitative Design: General Principles

As mentioned in the previous section, this thesis chooses to first adopt an interpretive stance. The interpretive worldview itself is often associated with qualitative inquiry (Table IV.1),⁵⁶⁰ which actually covers a range of approaches that tend to use primarily qualitative data.⁵⁶¹ This approach generally is used to understand how participants see their world and the experiences they have in that world.⁵⁶²

The strength of this approach lies in its ability to study a phenomenon beyond what the operational definitions of that phenomenon offer in a quantitative approach.⁵⁶³ It can use naturally occurring data to reveal the sequence (how) in which the participants' practices (what) are deployed and then examine the context in which the phenomenon occurs (why). A qualitative approach can examine how a seemingly stable phenomenon comprises multiple pieces put together by its participants. In addition, a qualitative approach is sometimes used because the existing literature is considered unable to explain a certain phenomenon adequately.⁵⁶⁴ This methodology was considered appropriate for this topic. This is because, as discussed in detail in Chapter II, the contemporary literature on the topic of this thesis as discussed in Chapter I seems to be lacking; most attention, as shown in the review presented in Chapter II, appears to be centred on taxpayers' behaviour rather than on the tax administration side. Hence, there is a scarcity of literature on this particular topic.

⁵⁵⁸ Creswell and Poth, above n 140, 82.

⁵⁵⁹ Adele Clarke, *Situational Analysis: Grounded Theory After the Postmodern Turn* (SAGE Publications, Inc, 2005).

⁵⁶⁰ Norman K. Denzin and Yvonna S. Lincoln, 'Introduction: The Discipline and Practice of Qualitative Research' in Norman K. Denzin and Yvonna S. Lincoln (eds), *The SAGE Handbook of Qualitative Research* (SAGE Publications, Inc, 4th ed, 2011) 1.

⁵⁶¹ Thomas A. Schwandt, *The SAGE Dictionary of Qualitative Inquiry* (SAGE Publications, 3rd ed, 2007).

⁵⁶² Merriam and Tisdell, above n 515.

⁵⁶³ David Silverman, *Interpreting Qualitative Data* (SAGE Publications, 2015).

⁵⁶⁴ Merriam and Tisdell, above n 515.

Qualitative methodology is generally interpretive in nature.⁵⁶⁵ It is interpretive because researchers endeavour to make sense of the meanings expressed by their participants. It normally uses data subject to multiple interpretations.⁵⁶⁶ These interpretations include the researcher's reflections, documented in the form of diaries or memos.⁵⁶⁷ As a result, qualitative design tends to be subjective and the researcher's and participants' subjectivity become part of the research.⁵⁶⁸

Qualitative research can be used to build theories, identifying patterns and making meaningful and *analytical generalisation*.⁵⁶⁹ However, there is no expectation that the results from this type of inquiry can be replicated in a different situation,⁵⁷⁰ as expressed by Lincoln and Guba: 'there is no generalization'.⁵⁷¹ 'Generalisation' will likely be conducted by readers in a similar situation.⁵⁷² As Eisner puts it:

The researcher might say something like this: 'This is what I did and this is what I think it means. Does it have any bearing on your situation? If it does and if your situation is troublesome or problematic, how did it get that way and what can be done to improve it?'⁵⁷³

The possibility of applying findings from one context to another—referred to as transferability—depends on the similarity of the two contexts.⁵⁷⁴ Lincoln and Guba call this 'fittingness'. If there is sufficient fittingness between the sending and receiving context, then perhaps what is found in the sending context can be applied in the receiving context.⁵⁷⁵ If the two situations are identical, there is no need to generalise because there is no need to make an inference to accommodate the differences of the two situations.⁵⁷⁶

⁵⁶⁵ Saunders, Lewis and Thornhill, above n 505.

⁵⁶⁶ Gray, above n 516.

⁵⁶⁷ Flick, above n 494.

⁵⁶⁸ Ibid.

⁵⁶⁹ McKerchar, above n 509, 94.

⁵⁷⁰ Ibid.

⁵⁷¹ Lincoln and Guba, above n 325.

⁵⁷² Marilyn Lichtman, *Qualitative Research in Education: A User's Guide* (SAGE Publications, Inc, 3rd ed, 2013).

⁵⁷³ Elliot W. Eisner, *The Enlightened Eye: Qualitative Inquiry and the Enhancement of Educational Practice* (Teachers College Press, Columbia University, 1991).

⁵⁷⁴ Lincoln and Guba, above n 325.

⁵⁷⁵ Norman E. Wallen and Jack R. Fraenkel, *Educational Research: A Guide to the Process* (Taylor & Francis, 2nd ed, 2011).

⁵⁷⁶ Eisner, above n 573.

However, as it is difficult for a researcher in the sending context to know both situations, it is the responsibility of readers—who belong to the receiving context—to decide the applicability of the research to their situations.⁵⁷⁷ To that end, the researcher must provide sufficient information surrounding the context of the research to help readers make an informed judgment on the fittingness of the contexts. This is what Geertz calls 'thick description'.⁵⁷⁸ Hence, generalisation is understood as transferring lessons learnt from one context to another⁵⁷⁹ rather than producing universally applicable principles as proposed by Kaplan.⁵⁸⁰

Generalisation in qualitative studies can also mean analytic generalisation that occurs at a conceptual level (Figure IV.4).⁵⁸¹ This is because a qualitative study can be used to develop a theory based on the case being studied.⁵⁸² This theory, in turn, can be applied in other cases—possibly with different results—as the conditions vary.

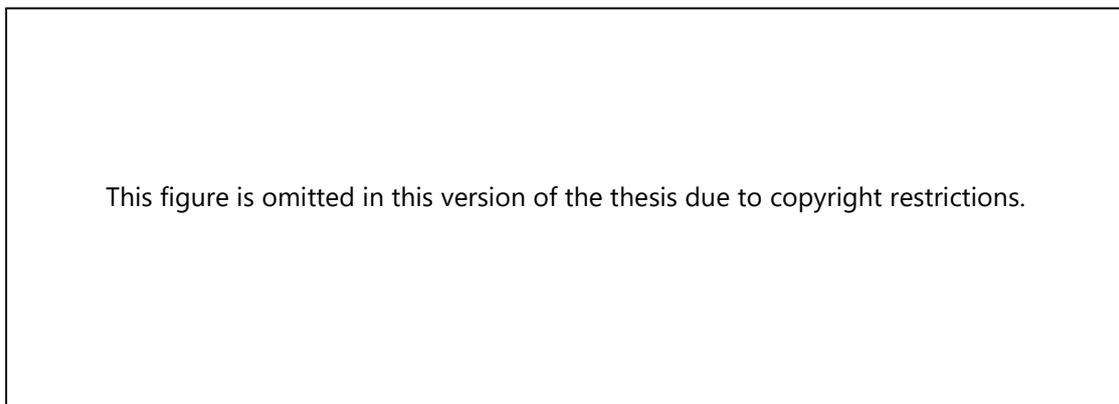


Figure IV.4 The process of analytic generalisation⁵⁸³

As explained above, this research adopts an interpretivist worldview (discussed in Section II.A) and uses a qualitative methodology. This stance views reality as individualised—as opposed to universalised—based on participants' experience. As a result, generalisation in

⁵⁷⁷ Ibid.

⁵⁷⁸ Clifford Geertz, 'Thick Description: Toward an Interpretive Theory of Culture' in Clifford Geertz (ed), *The Interpretation of Cultures* (Basic Books, Inc, 1973) 3.

⁵⁷⁹ Eisner, above n 573.

⁵⁸⁰ Abraham Kaplan, *The Conduct of Inquiry: Methodology for Behavioral Science* (Chandler, 1964).

⁵⁸¹ Robert K. Yin, *Case Study Research and Applications: Design and Methods* (SAGE Publications, Inc, 6th ed, 2018).

⁵⁸² Joseph Alex Maxwell, *Qualitative Research Design: An Interactive Approach* (SAGE Publications, Inc, 3rd ed, 2013).

⁵⁸³ Philipp Mayring, 'On Generalization in Qualitatively Oriented Research' (2007) 8(3) (September 2007) *Forum Qualitative Sozialforschung/Forum: Qualitative Social Research*.

a statistical context—as is often desired in quantitative studies—is not sought after in this research.

This research identifies lessons learnt from the reform pilot project—thereby grounded in participants’ first-hand experience—rather than testing hypotheses formulated from the literature. It then examines how these lessons can be used as a starting point for improving the current tax administration. These lessons act as what Eisner refers to as an ‘image’,⁵⁸⁴ in this case, it is the image of a good tax administration. Thus, generalisation in this research is seen as transferring those lessons (or images) from the reform pilot project to the current tax administration (this concept is discussed in Section II.B.1 and illustrated in Figure IV.4). It thus requires both inductive and deductive approaches, as explained at the beginning of Section II. A detailed discussion on how the qualitative approach is conducted in this thesis is presented in Section II.C.

2 Weaknesses

A qualitative research strategy is nonetheless subject to criticism, some of which is touched briefly in previous sections. This study is also subject to these weaknesses, as explained below.⁵⁸⁵

(a) Tends to be too Subjective

Qualitative studies often rely on the researcher’s judgment to choose what is important or significant and what is not. They also tend to be dependent upon a close and sometimes personal relationship with participants. Readers are sometimes provided only with a small number of clues as to why a certain area is being studied. This is generally caused by the tendency to erect a broad research question; again, the decision on this matter relies on the researcher’s personal judgment.

(b) Difficult to Replicate

Another problem often found with qualitative studies is that they tend to be rather difficult to replicate. This is mostly because of the subjective nature described previously. Here, the researcher is the main research instrument. As such, decisions about the data to be collected and focussed on are influenced by the researcher’s own reflection. In a grounded theory study, for instance, the final theory as a result of the study, reflects both the participants’

⁵⁸⁴ Eisner, above n 573.

⁵⁸⁵ Bryman, above n 518.

and the researcher's views. As such, a different researcher may use the same data and—by virtue of a different point of view—may produce an entirely different theory.⁵⁸⁶ Exacerbated by the unstructured and unsystematic nature of the research, it is often difficult to replicate the findings.

(c) Problems with Generalisation

In essence, generalisation can be described as reasoning from the observed to the unobserved or from specific cases to all similar cases.⁵⁸⁷ It is an assertion that a statement that is true in one place or time is also true in a different place or period.⁵⁸⁸ Generalisation lies at the core of a scientific inquiry⁵⁸⁹ and is regarded as one of the criteria for a social scientific inquiry.⁵⁹⁰

The results of a qualitative study are difficult—and often are not intended—to be generalised in a statistical context.⁵⁹¹ However, theoretical generalisation and transferability may still be possible. The latter leaves it to the reader to determine if a study is suitable for their situation.⁵⁹² To assist readers, it is the obligation of the researcher to provide a detailed—Geertz calls it 'thick'—description of the study.⁵⁹³

(d) Lack of Transparency

This weakness generally relates to difficulties in determining what the researcher has done or how their conclusions are formulated. For example, this can be seen in instances where it is frequently not clear how research participants are selected for in-depth interviews or observation. Further, once data are obtained, it is also sometimes unclear how the researcher analyses them. In other words, it is not always obvious what the researcher is doing.

Recognising these weaknesses, the rest of this chapter explains how the research was conducted and the ways used to maintain the overall rigour of the research process.

⁵⁸⁶ Corbin and Strauss, above n 126.

⁵⁸⁷ Schwandt, above n 561.

⁵⁸⁸ Geoff Payne and Malcolm Williams, 'Generalization in Qualitative Research' (2005) 39(2) *Sociology* 295.

⁵⁸⁹ Mayring, above n 583.

⁵⁹⁰ Schwandt, above n 587.

⁵⁹¹ Saunders, Lewis and Thornhill, above n 505.

⁵⁹² Lincoln and Guba, above n 325.

⁵⁹³ William A. Firestone, 'Alternative Arguments for Generalizing from Data as Applied to Qualitative Research' (1993) 22(4) *Educational Researcher* 16.

C Research Strategy

This section discusses the strategy employed in this study. Research strategy in this thesis refers to the step-by-step plan created by the researcher as a guide during the investigation (Figure IV.5). It translates the qualitative methodology in the third box of Figure IV.1 into a workable action plan.

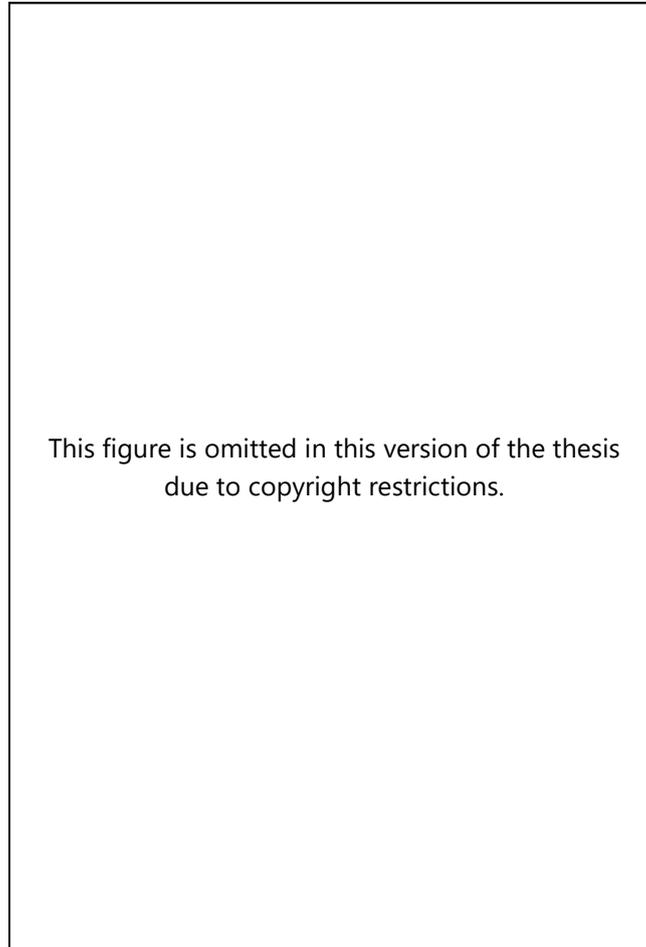


Figure IV.5 Research strategy⁵⁹⁴

After consulting relevant literature (Chapter II), a set of research questions was formulated based on the broad research topic (Chapter I). These questions were first general in nature, but then became more focussed once preliminary data were analysed. The researcher in this study acted as part of the research instrument to collect and inductively analyse all relevant data (fifth box of Figure IV.1). Additional data were collected based on the concepts that emerged from the previous round of data collection and analysis. This process was repeated until no significant new concepts emerged from the newly-acquired data. This

⁵⁹⁴ Adapted from Pickard, above n 496, 15.

was the point at which saturation was reached. These data were largely obtained using in-depth interviews (fourth box of Figure IV.1) from participants who were purposively selected to ensure maximum variation of perspectives. Additional data were obtained in the form of document archives.

These interrelated themes were organised into diagrams that were then reported back to the participants for further discussion. At this point, the participants had the opportunity to contribute to the overall themes and add new data or make corrections where necessary. As such, the outcomes were a result of negotiation between the researcher and the participants. Thus, the resulting themes are closely grounded in the data provided by the participants. A second round of literature review was then conducted to link the emerging themes with the current literature and to add more credence to them (see Section III). This also helped locate the theoretical contribution of this study within the literature (see Chapter I).

1 General Overview

This study began with an examination of article 2 sub section (1) Law No 6/1983—as amended by Law No 16/2009—on General Provisions and Tax Procedures. This section basically provides that any person who satisfies certain requirements set out by the law is required to present themselves to be registered as a taxpayer. The elucidation of this article states that said registration follows the self-assessment system, which requires a degree of compliance.

Theoretically, most taxpayers are willing to comply,⁵⁹⁵ as evident from the tax administration reform pilot project in the 2000s. Tax offices under this project, in addition to exhibiting strong revenue performance, had a marked increase in taxpayer compliance as evident by the timely filing of tax returns and the timely payment of taxes. Of the approximate 32,000 taxpayers administered under this project, only around 6% did not lodge their tax returns on time. The number of late payers was even smaller; less than 4% of total taxpayers.⁵⁹⁶

This period was of interest as the rest of the DGT—outside the pilot project—had a relatively low compliance level. This is why it was reported that the higher compliance in the pilot project was mainly attributed to the administrative reform.⁵⁹⁷ Stage 1 of this research

⁵⁹⁵ Valerie Braithwaite, 'Tax and Democracy: Bygone Ideas or Time for Reinvention?' (Paper presented at the The 29th Australasian Tax Teachers' Association Annual Conference, Wairarapa, New Zealand, 2017)

⁵⁹⁶ Brondolo et al, above n 21.

⁵⁹⁷ Ibid.

sought to shed light on how this occurs. In Kaplan’s words this stage attempted to answer the question ‘[w]hat the devil is going on around here’.⁵⁹⁸

Lessons from stage 1 were used as a starting point to conduct stage 2 of the study. Here, the focus was on assessing administration as currently applied in the DGT, using stage 1 as a guide. This stage was intended to result in a set of concepts to be used as a map to improve current tax administration (Figure IV.6).

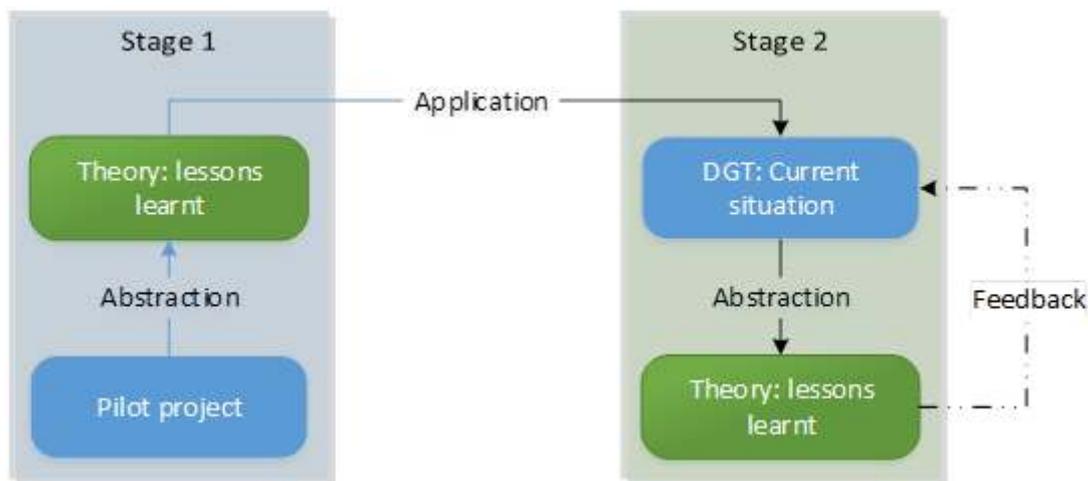


Figure IV.6 The two-stage research process

2 Participants

The main criteria for selecting participants was their ability to provide information on the topic of interest.⁵⁹⁹ In this research, this meant selecting participants with first-hand experience of the pilot project (stage 1) or current tax administration (stage 2). The aim was to examine their experiences with the Indonesian tax administration during the pilot project (stage 1) and in the current situation (stage 2), to provide the primary source of data.

As such, the general condition for initial participants in this research was that they needed to have previous or current strong exposure to the Indonesian taxation system. Strong exposure was defined as dealing with taxation issues as part of their professional activities. More participants were recruited subsequently based on the emerging data provided by previous participants.

⁵⁹⁸ Kaplan, above n 580.

⁵⁹⁹ Michael Quinn Patton, *Qualitative Research and Evaluation Methods* (SAGE Publications, 3rd ed, 2002).

(a) Stage 1

Participants for this stage were recruited based on the condition that they were involved in the pilot project. This turned out to be a challenge for several reasons. First, the pilot project was concluded more than a decade prior, so its key personnel were difficult to contact as they had either left the DGT or retired. Second, those who remained at the DGT often now held high positions so it was frequently difficult to gain access to them. In addition, some are posted in remote locations which were rather difficult to reach.

To deal with this issue, the participants in this research were recruited purposively following Charmaz's suggestions.⁶⁰⁰ First, an initial participant was identified to begin the data collection. Here, the selection criteria were established in advance before the fieldwork commenced, by identifying those with broad knowledge on the topic.⁶⁰¹ A useful criterion for the initial sampling in this research was that the participants needed to have broad knowledge of the pilot project initiative.

In this study, the initial participants were selected conveniently. This involved selecting participants that were most readily accessible to the researcher, such as friends, students or family members.⁶⁰² Here, the research began with one of the researcher's colleagues who was known to the researcher because of his involvement in the early stages of the pilot project reform. Although this may be neither purposeful nor strategic,⁶⁰³ and hence could have lower credibility⁶⁰⁴ and be prone to bias,⁶⁰⁵ for the purpose of this research, identifying such an *expert* was crucial to get started⁶⁰⁶ and provide a general overview of the whole process.⁶⁰⁷

Second, subsequent participants were recruited purposefully based on the information provided by the initial participant.⁶⁰⁸ In this case, the first participant (pseudonym Bunali) nominated a person he knew to be more knowledgeable on a topic of importance. For

⁶⁰⁰ Charmaz, above n 128.

⁶⁰¹ Glaser and Strauss, above n 133.

⁶⁰² VoonChin Phua, 'Convenience Sampling' in Michael S. Lewis-Beck, Alan Bryman and Tim Futing Liao (eds), *The SAGE Encyclopedia of Social Science Research Methods* (SAGE Publications, Inc., 2004) vol 1, 197.

⁶⁰³ Patton, above n 599, 181.

⁶⁰⁴ Gray, above n 516.

⁶⁰⁵ Saunders, Lewis and Thornhill, above n 505.

⁶⁰⁶ Charmaz, above n 128.

⁶⁰⁷ Janice M. Morse, 'Sampling in Grounded Theory' in Antony Bryant and Kathy Charmaz (eds), *The SAGE Handbook of Grounded Theory* (SAGE Publications, 2007) 229.

⁶⁰⁸ Ibid.

example, Bunali believed that staff recruitment was significant but acknowledged that he did not know much about the selection process. He then recommended another person who was directly in charge of that process and provided a suggestion for how that person might be contacted. This process continued until newly recruited participants did not provide significant new information to the existing story.

It should be noted that the purposive sampling strategy (Figure IV.5) described here, discussed elsewhere in this chapter, was not aimed at obtaining generalisation in a statistical sense.⁶⁰⁹ As noted by Patton, participants (or sample) in qualitative studies are generally selected purposefully based on their ability to provide rich information on the topic being studied.⁶¹⁰ The purpose is not to obtain representativeness in a statistical sense, but rather, to shed light on the research questions being studied (outlined in Chapter I).⁶¹¹ New participants are continuously recruited based on the emerging themes obtained during data analysis that is conducted as soon as an interview is finished. This process ceases when the newly acquired information provided by newly recruited participants does not contribute significantly to the overall story. This is the point where saturation—Dey calls this sufficiency—is reached.⁶¹²

Afterwards, a similar process was continued where the researcher intentionally recruited participants based on an issue raised by a particular person. The newly recruited participant was then asked to present their views, hence adding to the existing data set. For instance, a participant described that penalties to tax officers were applied with caution during the pilot project. To obtain further details on this issue, another participant who was involved in delivering such penalty was interviewed, hence adding to the depth of the data. Sometimes, a new participant was also asked to verify what was stated by another participant. The purpose of adding more participants was thus aimed at improving or clarifying a concept, rather than increasing sample size.⁶¹³

Another important feature of the participant recruitment process was that participants sometimes provided accounts that seemed to be a negative case—a case that does not fit the

⁶⁰⁹ Lincoln and Guba, above n 325.

⁶¹⁰ Patton, above n 599, 169.

⁶¹¹ Ibid.

⁶¹² Dey, above n 156.

⁶¹³ Kathy Charmaz, 'Grounded Theory: Objectivist and Constructivist Methods' in Norman K. Denzin and Yvonna S. Lincoln (eds), *The Handbook of Qualitative Research* (SAGE Publications, 2nd ed, 2000) 509.

overall pattern⁶¹⁴—such as when one participant mentioned illegal payments made to one of his colleagues. This was important as it added a different perspective to the generally accepted view that a pilot office was of high integrity. Eventually, the participant recruitment process terminated when the newly recruited participants revealed ideas similar to the concepts raised by participants interviewed earlier.⁶¹⁵ Using this strategy, seven participants in various positions were recruited (Table IV.2). The variety of their roles was useful in obtaining different perspectives and identifying common patterns.⁶¹⁶ Pseudonyms were assigned for each participant to maintain confidentiality (see Table IV.2).

Table IV.2 List of participants: stage 1

Role	n	Position	Pseudonym
Appeal officer	1	Regional Tax Office, LTO	Romlah
Head of a tax office	2	District Tax office, LTO	Jono, Darus
Account Representative (AR)	1	District Tax office, STO	Siti
Information technology (IT) specialist, liaison officer (LO)	1	Head Office	Bunali
Tax auditing division officer	1	District Tax office, LTO	Jojon
Taxpayer consultation officer	1	District Tax office, STO	Wono
Total	7		

The number of participants described in Table IV.2 seems small. However, it has been suggested in the literature that sample sizes as small as 12⁶¹⁷ or 15⁶¹⁸ interviewees may be sufficient to achieve theoretical sufficiency. In fact, research that involves only one research participant can still make a significant contribution.⁶¹⁹ It is further argued that a small sample can still generate interviews of lasting importance.⁶²⁰

Here, four aspects were considered in recruiting participants. The first was the scope and nature of the study. This study began with a quite general idea about the research topic. However, when the first interview with Bunali was completed, a more focussed idea quickly

⁶¹⁴ Corbin and Strauss, above n 126, 101.

⁶¹⁵ Morse, above n 607.

⁶¹⁶ Patton, above n 599.

⁶¹⁷ Greg Guest, Arwen Bunce and Laura Johnson, 'How Many Interviews are Enough? An Experiment With Data Saturation and Variability' (2006) 18(1) *Field Methods* 59.

⁶¹⁸ Daniel Bertaux, 'From the Life-History Approach to the Transformation of Sociological Practice' in Daniel Bertaux (ed), *Biography and Society: The Life History Approach In The Social Sciences* (Sage Publication, Inc, 1981) 29.

⁶¹⁹ Clive Roland Boddy, 'Sample Size for Qualitative Research' (2016) 19(4) *Qualitative Market Research: An International Journal* 426.

⁶²⁰ Charmaz, above n 128.

took shape. Bunali also recommended key individuals who were more knowledgeable on certain important aspects.

Second, this research took into account the homogeneity of the population.⁶²¹ If the participants had a higher degree of similarity in their experience related to the research topic, then saturation arguably would be obtained sooner,⁶²² with fewer participants. This in fact was the case in this study. All participants were tax officials working in the relatively confined environment of the pilot project, albeit with different jobs (Table IV.2). As such, they shared similar experiences and characteristics. This seemed to contribute to the smaller sample of participants required in stage 1.

Last, it is important that efforts to include all relevant people as research participants are made,⁶²³ to capture diverse perspectives. While obtaining representativeness is problematic, this study endeavoured to achieve this by including individuals with different roles (Table IV.2).⁶²⁴ One limitation on participant selection in this stage is the exclusion of foreign advisers either from the IMF or other donors. While it undoubtedly would enrich the content of the data, obtaining detailed identifications and access to these advisers during the data collection period in 2015-2016 was difficult. As such, this study has to rely on relevant reports or other types of document—such as legal documents, PowerPoint slides, and staff memoirs—written on the reform project. In the end, the data presented by these participants and documents seemed to have reached sufficiency in explaining the Indonesian tax administration pilot project reform phenomenon. Participant selection for stage 2 of this study is discussed in the following section.

(b) Stage 2

Generally, participant selection for stage 2 followed the process outlined in the previous section. Participants for the initial sampling in stage 2 were required to be involved with the current Indonesian tax administration. For this purpose, three participants were recruited. One participant was at the operational level of the DGT in one of the STO in eastern

⁶²¹ Robert T. Trotter II, 'Qualitative Research Sample Design and Sample Size: Resolving and Unresolved Issues and Inferential Imperatives' (2012) 55(5) (Nov) *Preventive Medicine* 398.

⁶²² Guest, Bunce and Johnson, above n 617.

⁶²³ Timothy Bock and John Sergeant, 'Small Sample Market Research' (2002) 44(2) (Quarter 2) *International Journal of Market Research* 235.

⁶²⁴ Patton, above n 599.

Java and the other was at the policy level in Jakarta. Although neither recommended other participants to interview with respect to certain issues that they raised, they nevertheless revealed certain aspects that formed the basis for selection of subsequent participants. The last initial participant however provided an assistance in participant recruitment by organising interviews with individuals who she believed to be well informed with regard to certain issues of importance.

More participants were recruited based on the information provided by these initial participants. Using this strategy, 21 participants were contacted and were willing to participate in this study (Table IV.3). The discussion around the decision to use small samples described in the previous section applies here as well. Although few in number, these participants represented different roles and positions and thus offered diverse points of view.

Table IV.3 List of participants: stage 2

Role	<i>n</i>	Position	Pseudonym
Academic	2	Lecturer	Cecen, Siti
Tax collector	2	District Tax office	Juna
		Regional Tax office	lin
Non-governmental organisation	1	Founder	Justine
Tax trainer	1	Tax training centre	Hoot
Policy formulation	2	Head office	Rosa, Roman
AR	1	District Tax office, STO	Asta
Appeal reviewer	1	Head office	Uti
Taxpayer consultation officer	1	District Tax office, STO	Wono
Supervisor, policy level	2	Head office	Jono, Ed
Taxpayers	7	Business owner	Ty, Ann, Diamond, Susy, Jess, Ahn, Aceh
Taxpayer extension officer	1	District Tax office, STO	Surya
Total	21		

3 Data Collection

This research project simultaneously collected and analysed data (Figure III.5). Following Glaser's suggestion, data collection was largely driven by one question: '[w]hat's happening here?'⁶²⁵ What was meant by *happening* in this case was the experience addressed in the research.⁶²⁶ As Dey suggests, data in research can be in any form, including 'sounds,

⁶²⁵ Barney G. Glaser, *Theoretical Sensitivity* (Sociology Press, 1978).

⁶²⁶ Kathy Charmaz, 'Qualitative Interviewing and Grounded Theory Analysis' in James A Holstein and Jaber F Gubrium (eds), *Inside Interviewing: New Lenses, New Concerns* (SAGE Publications, Inc., 2003) 311.

pictures, videos, music, songs, prose, poetry or whatever'.⁶²⁷ Based on a number of data source examples offered by Corbin and Strauss,⁶²⁸ this research mainly used in-depth unstructured interviews, but also documents and group meetings. Unstructured interviews were chosen because they enable participants to talk freely, thus providing the richest data for theory building⁶²⁹ and uncovering participants' in-depth experience.⁶³⁰ This technique is best for exploring participants' views⁶³¹ and can be used to capture rich and detailed experiences.⁶³²

Such experience turned out to be deeply emotional for some participants in this study. As they reflected on their time during the pilot project, they recognised that what they experienced was life changing. It was their 'opportunity to change'. They viewed the tax office where they worked—and the DGT in general—as one of the most corrupt public offices in Indonesia, and they believed that the pilot project was their way to escape corrupt practices.

In this research, the interviews were conducted using a conversational style (Figure IV.7).

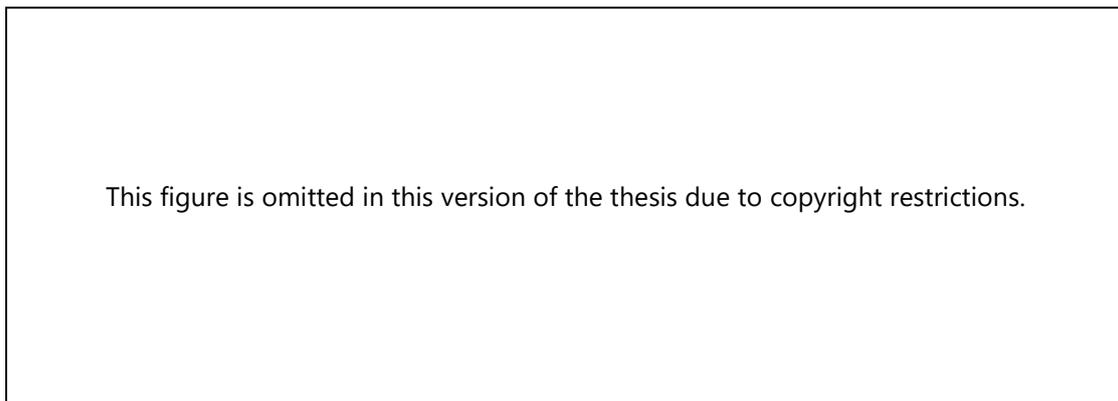


Figure IV.7 Interview strategy⁶³³

This back-and-forth strategy made the author have two, or sometimes more, meetings with some of the participants. The first meeting was the main interview session intended to

⁶²⁷ Dey, above n 156.

⁶²⁸ Corbin and Strauss, above n 126.

⁶²⁹ Ibid.

⁶³⁰ Gary Mitchell, 'Use of Interviews in Nursing Research' (2015) 29(43) *Nursing Standard* 44.

⁶³¹ Hilary Arksey and Peter T. Knight, *Interviewing for Social Scientists: an Introductory Resource with Examples* (SAGE Publications, 1999).

⁶³² Bryman, above n 518.

⁶³³ Adapted from Charmaz, above n 128.

achieve two goals: establish rapport and record participants' experiences. The second interview was mainly aimed at exploring and clarifying certain aspects that emerged in previous sessions.

Paper-based note taking was used during the interviews, along with audio recording, with awareness that this might reduce a participant's openness,⁶³⁴ although no significant effect of this was noted.⁶³⁵ The interview with Jono was not taped because he asked for it not to be, although he acknowledged its importance. For this session, extensive note taking was undertaken. The interviews generally lasted one hour or more, a duration considered sufficient.⁶³⁶

The initial interviews proceeded much like what Arksey and Knight denote as 'a jazz musician in a jam session', where the interview guide may be thrown away.⁶³⁷ The general strategy was to invite the participant to reflect on their experiences with the researcher mostly taking a passive role and remaining in the background. Initially, a participant was asked to provide an account of their role. This included, for instance, their day-to-day job or activities. Afterwards, the conversation flowed based on the participant's memory as they shared their views and concerns.

Subsequent interviews were mainly follow-up sessions. Here, the participant was presented with the researcher's initial interpretation of the first interview in the form of diagrams and asked if these diagrams reflected their experience. The participant was also asked to make comments or feedback on the researcher's interpretation. Some participants used this opportunity to offer new information that ultimately added to the richness of the existing data.

Some interviews were conducted online for logistical reasons,⁶³⁸ as some participants were unavailable for face-to-face meetings. The most common internet technologies for this purpose include instant messaging, electronic mail and discussion forums.⁶³⁹ These

⁶³⁴ Arksey and Knight, above n 631.

⁶³⁵ This can be seen for instance in an interview with Romlah when, although she knew that the interview was recorded, she shed tears when she described her life-changing experience during the pilot project.

⁶³⁶ Pranee Liamputtong and Douglas Ezzy, *Qualitative Research Methods* (Oxford University Press, 2nd ed, 2005).

⁶³⁷ Arksey and Knight, above n 631.

⁶³⁸ Sharlene Hesse-Biber and Amy J. Griffin, 'Internet-Mediated Technologies and Mixed Methods Research: Problems and Prospects' (2013) 7(1) *Journal of Mixed Methods Research* 43.

⁶³⁹ Claire Hewson, 'Qualitative Approaches in Internet-Mediated Research: Opportunities, Issues, Possibilities' in Patricia Leavy (ed), *The Oxford Handbook of Qualitative Research* (Oxford University Press, 2014) 423.

technologies facilitated either real-time (such as WhatsApp's voice call service) or non-real time (such as emails) interviews.⁶⁴⁰

One of the participants in this research used email to respond to the follow-up interview request. In this case, the interview proceeded in a similar way to that described by Hewson, where the researcher sends questions and the participants respond to the message.⁶⁴¹ Other online channels to reach participants include WhatsApp, as this was the online chatting app used by participants. It supports encrypted real-time exchange of text messages, pictures, video and audio. Another useful feature is its ability to export messages to an email account and record voice conversations that can later be imported into NVivo—a software dedicated for data organisation, storage, and retrieval—for analysis.

Despite its weaknesses, such as participants' tendency to be playful⁶⁴² or difficulties in establishing rapport,⁶⁴³ this method was chosen for logistical reasons. Further, the effects of these problems were limited in this research by using online interviews only for follow-up sessions, hence rapport had already been established.⁶⁴⁴ It must also be noted that although most people have every intention to be honest during interviews, their recollections may not be reliable as memories fade or change and a participant's intention to do something may not actually occur.⁶⁴⁵ This research was subject to this limitation. The interviews for each stage are discussed below.

(a) Stage 1

During initial interviews, a face-to-face meeting was arranged with one participant (pseudonym Bunali). He was the LO tasked by the DGT head office to handle IT at the LTO in its early stages. The interview was conducted in a hotel room while he was attending a workshop, using the initial interview guide in Appendix III. This interview provided the foundation on which subsequent interviews were built.

⁶⁴⁰ Roksana Janghorban, Robab Latifnejad Roudsari and Ali Taghipour, 'Skype Interviewing: The New generation of Online Synchronous Interview in Qualitative Research' (2014) 9 *International Journal of Qualitative Studies on Health and Well-being*

⁶⁴¹ Claire Hewson, above n 639.

⁶⁴² Ibid.

⁶⁴³ Valeria Lo Iacono, Paul Symonds and David H.K. Brown, 'Skype as a Tool for Qualitative Research Interviews' (2016) 21(2) *Sociological Research Online* 1.

⁶⁴⁴ Claire Hewson, above n 639.

⁶⁴⁵ Howard Lune and Bruce L. Berg, *Qualitative Research Methods for the Social Sciences* (Pearson Education Limited, 9th ed, 2017).

One initial interview was conducted with seven participants (Table IV.2). This was followed by subsequent interviews with six other participants. Three further follow-up interviews were then conducted with three of these six participants. In total, 10 interviews were conducted with these seven participants. One follow-up interview was conducted online using WhatsApp. Table IV.4 provides a summary of the interview activities in stage 1. Pseudonyms were used to maintain anonymity.

Before the interview was conducted, an information sheet and a consent form (Appendix IV) were presented to participants. In addition, several documents were obtained either from the participants or from other sources—such as websites managed by the IMF and the DGT—to complement and corroborate the information provided by the participants.

Table IV.4 Summary of interview activities: stage 1

No	Name	Sex	Initial/ main*	First interview		Second interview	
				Yes/No	Mode	Yes/No	Mode
1	Wono	Male	Main	Yes	Face to face	No	
2	Bunali	Male	Initial	Yes	Face to face	No	
3	Romlah	Female	Main	Yes	Face to face	Yes	Face to face
4	Jono	Male	Main	Yes	Face to face	No	
5	Darus	Male	Main	Yes	Face to face	Yes	Face to face
6	Jojon	Male	Main	Yes	Face to face	No	
7	Siti	Female	Main	Yes	Face to face	Yes	WhatsApp

* Initial participant—in this case Bunali—means a participant who was recruited before anyone else. Based on the interview with Bunali, other participants were recruited. Bunali also recommended other potential participants whom he considered more knowledgeable and hence, acted as a gate keeper. Main participants on the other hand were all participants who provided significant information for the topic being studied. A main participant can also be an initial participant, as seen here.

(b) Stage 2

Data collection in stage 2 generally was conducted in a similar fashion as that for stage 1. Among the 12 participants, initial interviews were conducted with two. The accounts provided by these two initial participants guided subsequent interviews with the remaining participants. Some interviews were conducted using the internet chat facility available on WhatsApp. Afterwards, six participants were invited for follow-up interviews. However, one participant did not respond to the request for a follow-up interview, leaving the researcher with five participants. Three of these were conducted via the internet using WhatsApp with two participants who were overseas when the request for a follow-up interview was made.

Another participant preferred to use email without disclosing why she chose this method. Three of the participants in stage 2 also participated in stage 1 of this study.

Additionally, the researcher was a member of, and followed, two private group chats on WhatsApp. The first group—named *Penilai V Malang*—was founded on 7 March 2013 and at the time of this writing, has 63 members across Indonesia. Only two members of this group were not active employees at the DGT. Some of the participants in stage 2 of this study were also members of this group. The second WhatsApp group followed by the researcher was named *Widyaiswara/I Puspa*. This group was founded by one of the research participants on 21 October 2014 with 41 members. All members of this group were tax trainers or lecturers at the Ministry of Finance and all but two were former senior employees of the DGT. Because of their seniority, some of them had wide networks within the Ministry of Finance and in the taxation industry.

These groups were useful in the sense that they acted as a medium for information sharing. Quite often a certain issue was raised and became a topic of discussion. For example, when it was announced that some DGT officials were transferred or promoted in and out the island of Java, one group member provided background information as to why this transfer took place. Another example was when one of the tax officials was arrested by the Corruption Eradication Commission;⁶⁴⁶ one group member quickly recognised that the alleged offender was one of the persons who was promoted based on the discretion of a certain party.⁶⁴⁷ Additionally, group members sometimes posted memes⁶⁴⁸ as a way to describe their reactions

⁶⁴⁶ This commission is a super body in Indonesia tasked with the responsibility of combating corruption. It is famous for investigating and arresting corruption cases involving high-profile individuals such as members of parliament, ministers, or head of regional states. It has gained widespread support among Indonesian community members and at the same time, is often subject to both political attacks aimed at limiting its authority and physical attacks on its investigators. A former director general of taxes was one of those who was arrested, but his case was later overturned by the court. This commission is currently investigating a corruption case that allegedly involves a former Indonesian speaker of the parliament. The case is being trialled in court.

⁶⁴⁷ Colloquially, this is called the *PMDK system*, referring to the undergraduate university student recruitment system in Indonesia. Under this system, students can be enrolled into a course without the need to sit on an entrance test, as normally required for school leavers. In this case, the alleged offender was allegedly promoted to a favourable position in Jakarta without the need to do the open bidding selection process as normally required for most DGT employees.

⁶⁴⁸ The word *meme* was coined by the English biologist, Richard Dawkins in his book titled *The Selfish Gene*. Shortened from a word of Greek origin, *mimeme*, Dawkins uses *meme* to mean a unit of cultural transmission or a unit of transmission. Memes propagate themselves like a virus from person to person through an imitation process, and thus preserves their original

about rules or policies imposed by the DGT. They sometimes produced links to other social media content such as on Facebook or Twitter about certain issues raised by taxpayers they knew, thereby providing a rich source of information. If there were certain issues relating to this study, the researcher followed them up with some of the participants via a private and encrypted chatting channel to ensure privacy and anonymity.

In total, 19 interviews with 14 participants and one group discussion with seven taxpayers were conducted (Table IV.5). Again, the names of the participants have been altered to maintain their anonymity.

Table IV.5 Summary of interview activities: stage 2

No	Pseudonym	Sex	Initial/ main	First interview		Second interview	
				Mode	Location	Mode	Location
1	Cecen	Female	Main	Face to face	Office		
2	Juna	Male	Initial	WhatsApp	Internet	WhatsApp	Internet
3	lin	Female	Main	WhatsApp	Internet	WhatsApp	Internet
4	Justine	Male	Main	Face to face	Office		
5	Siti	Female	Initial	Face to face	Office	Face to face	Restaurant
6	Hoot	Male	Main	WhatsApp	Internet		
7	Rosa	Female	Main	Face to face	Restaurant	Email	Internet
8	Roman	Male	Main	Face to face	Restaurant	Did not respond	
9	Asta	Male	Main	Face to face	Café		
10	Uti	Female	Initial	Face to face	Food court	Face to face	Office
11	Wono	Male	Main	Face to face	Home		
12	Jono	Male	Main	Face to face	Office		
13	Surya	Male	Main	WhatsApp	Internet		
14	Ed	Male	Main	Face to face	Office		
15	Ty, Ann, Diamond, Susy, Jess, Ahn, Aceh	Mixed	Main	Face to face	Hotel lobby		

forms. Today, *meme* is mostly associated with internet meme, which normally is an object (such as a picture or a video) that is deliberately altered and then quickly spreads (goes viral) from person to person via the internet.

In addition, a group discussion was held with seven members of a taxpayer group called UMKM Sahabat Pajak (USP, Small Business Friends of the Tax Office). This group was chosen because to the best of the researcher's knowledge, it was the first of such taxpayer organisation in Indonesia with members that had changed from being *tax haters* to being *tax friends*. Its members were small business owners who initially did not want anything to do with the tax office, let alone pay taxes. However, they somehow became tax advocates who actively conducted trainings supported by the tax office. As such, this group of taxpayers satisfied the extreme case sampling criteria where participants were unusual in nature.⁶⁴⁹ The group discussion was organised by Siti, who was their tax mentor.

Once a set of data was collected, it was quickly analysed. Results from this analysis were used to inform further data collection. The process of data analysis is discussed in the following section.

4 Data Analysis

Qualitative data can be analysed in many ways. Saldana, for instance, describes 14 genres including ethnography, grounded theory and critical inquiry.⁶⁵⁰ The same data can be analysed using different genres and produce different results. Further, quite often researchers inadequately provide an explanation of how they arrive at their conclusions, or describe their final categories and patterns in an incomprehensible manner.⁶⁵¹

This section describes the way data were analysed in this study. Data were mostly analysed using procedures described for Straussian grounded theory (see Figure IV.1 and Figure IV.5). The main focus was the spoken words of the participants. Other data, such as the researcher's memos, documents, social media content (Twitter, Facebook posts and WhatsApp chat messages) or pictures (e.g., in the form of internet memes) were mainly used as guides to help the researcher understand the participants' spoken words during interviews.

(a) Data Collection and Analysis: A Simultaneous Process

In this research, data collection and data analysis were conducted simultaneously as normally found in a qualitative study.⁶⁵² Data were collected initially from a small sample and

⁶⁴⁹ Patton, above n 599, 169.

⁶⁵⁰ Johnny Saldaña, *Fundamentals of Qualitative Research* (Oxford University Press, 2011).

⁶⁵¹ Matthew B Miles, A Michael Huberman and Johny Saldana, *Qualitative Data Analysis: A Methods Sourcebook* (SAGE Publications, 3rd ed, 2013).

⁶⁵² Pickard, above n 496.

were immediately analysed to obtain initial concepts that provided direction for further data collection. This may have involved returning to the same participants for follow-up interviews or recruiting new participants.

This second round of data collection provided more data that explained the initial concepts further or resulted in a set of completely new concepts. Throughout this process, memos were written to reflect the researcher's continually evolving understanding of what was said by the participants. This memo process also acted as a way to further question the data and brainstorm new ideas.

(b) Stages in Data Analysis

This study followed iterative data analysis in a back-and-forth manner (Figure IV.5). Inductively, the researcher searches for text relevant to the research questions—referred to as relevant text—from an interview transcript and organises it into repeating ideas (themes). Later on, when a different participant says something of a similar nature or perhaps contradicts what has been said, the researcher puts this portion of text in the relevant theme. In the process, the participant may be contacted to clarify a certain concept.

This relevant text may also be moved from one theme to another, more suitable theme. Thus, deductively the researcher continuously checks the emerging themes with the underlying relevant text. However, for illustrative purposes, in this thesis, the data analysis procedure is presented in a linear fashion (Figure IV.8).

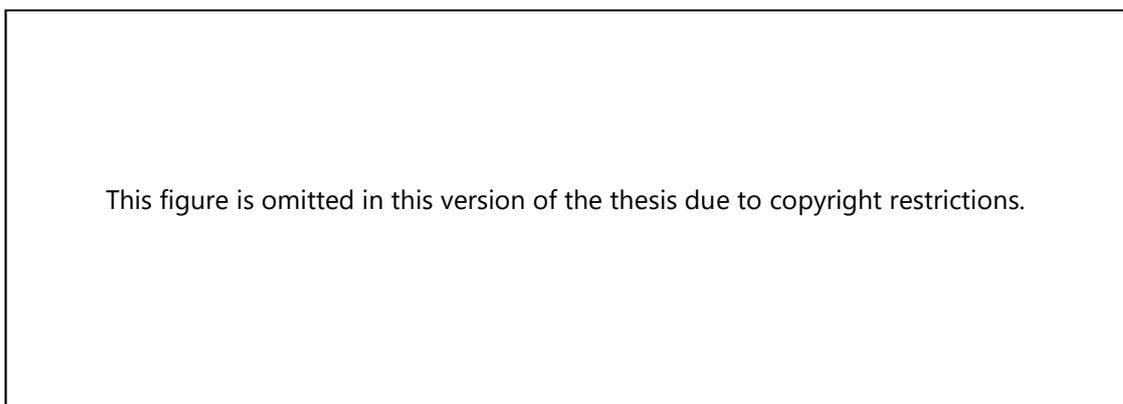


Figure IV.8 Data analysis⁶⁵³

⁶⁵³ Carl F. Auerbach and Louise B. Silverstein, *Qualitative Data: An Introduction to Coding and Analysis*, Qualitative Studies in Psychology (New York University Press, 2003).

Figure IV.8 shows an inverted pyramid showing an analytical journey from detailed interview transcripts (raw text) to a more abstract level of understanding. Although described linearly, in reality it actually is conducted in a back-and-forth fashion. The researcher is often required to return to the participants to collect more data or to clarify certain concepts or understandings. This in turn generates more data resulting in more codes and concepts. Diagrams are drawn to illustrate the relationships among these concepts.

The identification of new concepts through coding—a process that breaks down data into manageable parts⁶⁵⁴—sometimes prompts the researcher to return to raw text. This can result in the modification of existing concepts or diagrams. In between these steps, memos are written to clarify ideas or make comparisons. The overall coding process is described in the following section.

(c) The Coding Procedure: Stage 1

During the coding process, this research followed Charmaz’s suggestions to approach the data analysis with an open mind.⁶⁵⁵ It means the researcher remains open regarding the theoretical possibilities to which the data might lead. Although Glaser suggests that the researcher does not review existing literature to avoid *contamination* in the analysis,⁶⁵⁶ it should be noted that the researcher brings prior ideas and skills,⁶⁵⁷ particularly those acquired when the researcher was part of the DGT, as noted in Chapter I. This influenced the way data was analysed. In addition, during the preparation prior to commencing fieldwork, the researcher conducted a preliminary literature review, reported in Chapter II. This mainly was conducted to avoid approaching the field with what Dey calls *an empty head*.⁶⁵⁸ The overall coding process was conducted in accordance with the following procedure (Table IV.6):

Table IV.6 Coding procedures⁶⁵⁹

1. Making the text manageable: identifying relevant text
a. Stating research concerns
b. Selecting portion of text that are relevant to the research questions
2. Listening to what is said: grouping similar ideas
a. Portions of relevant text that indicate similar ideas are grouped together
b. Ideas that represent similar concept are organised into the same category

⁶⁵⁴ Schwandt, above n 561, 32.

⁶⁵⁵ Charmaz, above n 128.

⁶⁵⁶ Barney G. Glaser, *Basics of Grounded Theory Analysis: Emergence vs Forcing* (Sociology Press, 1992).

⁶⁵⁷ Charmaz, above n 128.

⁶⁵⁸ Dey, above n 612.

⁶⁵⁹ Auerbach and Silverstein, above n 653.

-
3. Developing theory
 - a. The emerging concepts are grouped into a more abstract theoretical concept that provides answer to the research questions
 - b. The theoretical concepts are then written into a narrative by integrating the participants' stories
-

The following sections discuss each step in more detail.

(i) Stating Research Concerns

This research began with a concern about the decline in the DGT's ability to generate revenue. It then examined the tax administration reform pilot project in the early 2000s. This era provided evidence of significant improvement towards revenue collection despite the fact that the project was conducted during a financial crisis.

Normally, tax revenue should decline because of the decrease in tax base as a result of a crisis. The fact that the pilot offices showed a significant increase in revenue under this condition suggested that a unique process might have caused this increase. Brondolo suggested that this process could be related to the administrative reform introduced in that project.⁶⁶⁰ This research sought to look into this process in more details as the general research concern. Having established the research concern, the next step of data analysis was identifying portions of text from the interview transcripts that are relevant with the research concern.

(ii) Identifying Relevant Text

To deal with the large amount of data resulting from the interviews, this research followed Corbin and Strauss's recommendation to break down the data into manageable parts⁶⁶¹ by identifying parts of the text that seemed relevant to the research concern. For this purpose, the researcher listened to each interview recording at least twice to identify key ideas. Later, these interviews were transcribed manually into Microsoft Word documents. An attempt to use the speech recognition software Dragon Naturally Speaking to help with transcription was made. However, this idea was soon abandoned as it did not provide the expected results, mainly because of the lack of support for the Indonesian language.

These manual transcriptions turned out to be time consuming. This was considered inefficient because there was a need to do the analysis quickly to identify concepts to be used

⁶⁶⁰ Brondolo et al, above n 21.

⁶⁶¹ Corbin and Strauss, above n 126.

in subsequent data collection. To overcome this issue, the researcher decided to follow Strauss's suggestion to only transcribe selected parts of interviews.⁶⁶² Full transcriptions were conducted only on the first three interviews as they formed the fundamental basis of this study. Subsequent interviews, in contrast, were transcribed selectively as soon as they were finished. The reason for this was that data collection was conducted with participants located in different cities in Indonesia. Thus, time efficiency was a concern. For this, the researcher followed Strauss's advice to listen to the recording, take notes and then conduct analysis manually.⁶⁶³

All data were imported into NVivo 11 (Figure IV.9). A new folder named INTERVIEWEES was created in this software to store details for each participant. These included the participant's profile, audio recordings, transcripts and memos. Key ideas emerging from immediate data analysis were also recorded here. NVivo was used because it allows the researcher to do anything on any portion of the data in any way the researcher chooses.⁶⁶⁴

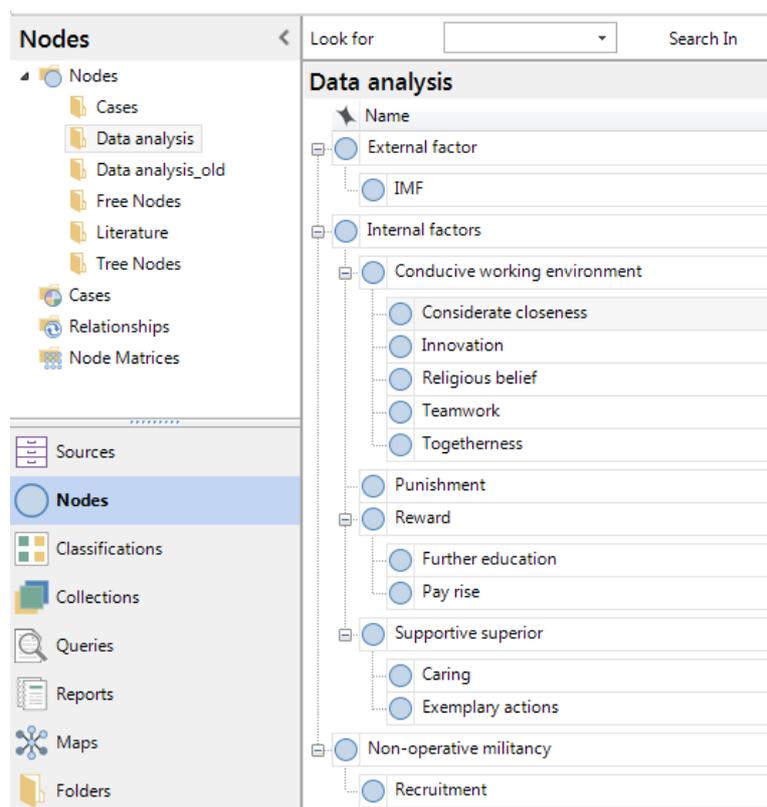


Figure IV.9 Coding in NVivo

⁶⁶² Anselm L. Strauss, *Qualitative Analysis for Social Scientists* (Cambridge University Press, 1987).

⁶⁶³ Ibid.

⁶⁶⁴ Kakali Bhattacharya, 'Coding is Not a Dirty Word: Theory-Driven Data Analysis Using NVivo' in Shalin Hai-Jew (ed), *Enhancing Qualitative and Mixed Methods Research with Technology* (Information Science Reference, 2015) 1.

Relevant text was highlighted using the software. Any text that satisfied the following questions was considered relevant.⁶⁶⁵

1. Is the text related to the research question?
2. Is the text able to help understand what was said by the participant?
3. Does the text seem to be important for any reason?

This process for instance can be seen in the importance of religiosity raised by Siti. Later on, religion was again raised by a different participant with a deep emotional tone. When Siti's interview was later played again, a similar tone that previously had been unidentified was noted. It was then realised that religious factors may be important in shaping attitudes at the tax office.

The identification of relevant texts in NVivo was conducted as follows:

1. Under NODES, a new folder named DATA ANALYSIS was created. A new folder was then created for each participant in DATA ANALYSIS. This folder was labelled with the participant's name. A new node named RELEVANT TEXTS was created within this folder. For example, a folder named WONO was created to store all relevant text from interviews with Wono.
2. Under SOURCES, the interview transcript for a certain participant from the INTERVIEWEE folder was opened. Portions of text considered relevant were highlighted. For example, the researcher began with WONO. Wono's interview transcript, stored in the WONO folder in the SOURCES tab, was opened. Relevant text in this transcript was highlighted.
3. The highlighted text was dragged and then dropped into the relevant participant's folder. The whole transcript was read and all text considered relevant was dragged into the corresponding RELEVANT TEXT node. This node simply acts as a container for all relevant text. As an illustration—continuing the example in step 2—the researcher switched from the SOURCES tab to the NODE tab and selected the WONO folder. The RELEVANT TEXTS node could immediately be seen in this folder. The highlighted text in the transcript was then dragged into the RELEVANT TEXTS node. This was repeated to the end of Wono's transcript.

⁶⁶⁵ Auerbach and Silverstein, above n 653.

4. Steps 1 to 3 were repeated for all participants. This resulted in a selection of relevant text stored separately for each participant.

While doing this, memos were sometimes written to record why a particular text was considered relevant.

(iii) Identifying Repeating Ideas

The next phase of data analysis was identifying repeating ideas. Here, the researcher worked on the relevant texts rather than the raw data in the form of interview transcripts. The purpose of this step was identifying and then grouping texts with similar ideas. In NVivo, this was conducted as follows:

1. The researcher navigated to a particular participant's folder in the DATA ANALYSIS folder under the NODES tab and opened the RELEVANT TEXTS node. The first relevant text in this node was then highlighted and dragged to the empty location outside the RELEVANT TEXTS node. This triggered the creation of a new node. This node was named IDEA 1 in the dialogue box that immediately opened afterwards. Once the text was stored in IDEA 1, this text was then removed from the RELEVANT TEXTS list using the UNCODE feature, thereby reducing the content of the RELEVANT TEXTS node. The next text that seemed to belong to IDEA 1—because it had a similar idea—was then dragged to the IDEA 1 node and uncoded from the RELEVANT TEXTS node. This process was repeated continuously until the end of the RELEVANT TEXTS node. Once this point was reached, all relevant text that had similar ideas to IDEA 1 were already separated from the RELEVANT TEXTS node into the IDEA 1 node. Hence, the process for IDEA 1 was finished. The remaining text in the RELEVANT TEXTS node therefore contained ideas that were different from IDEA 1.
2. With the remaining relevant text in the RELEVANT TEXTS node, the researcher then began with the first text in that node. This text was highlighted and then dropped to an empty location. A new node called IDEA 2 was then created in the dialogue box that immediately appeared. Afterwards, the researcher read the remaining text in the RELEVANT TEXTS node and moved any text that seemed to belong to IDEA 2 into that node. This was repeated until the end of the RELEVANT TEXTS node. Once this point was reached, the process for IDEA 2 was finished.

3. Step 1 and 2 were repeated for all text in the RELEVANT TEXTS node as much as possible, resulting in several new nodes that represented different ideas. As a result, the contents of the RELEVANT TEXTS node continued to decrease. The identification of repeating ideas finished when there was no text left in the RELEVANT TEXTS node. Some ideas arguably had more supporting text than others.
4. Each IDEA 'X' node—where 'X' represents a number—was given a new, more descriptive name. For example, in the WONO transcript, Wono talked about his experience when he first joined the pilot project. He talked about his motivations, his recollection of his colleagues' reactions and his views of other test takers. These were stored in the IDEA 1 node. This node was renamed RECRUITMENT to describe that the texts in this node related to the recruitment process. Memos were written to reflect the development of these ideas and why a particular text was included in a certain idea node. This was repeated for all transcripts.
5. The researcher then created a master list containing all ideas initially stored in separate nodes in each participant's folder. In NVivo, the mechanics were as follows:
 - a. The researcher opened an idea node in a participant's folder and then exited that folder by selecting its parent folder, named DATA ANALYSIS.
 - b. All contents of a particular idea node in the participant's folder were selected and dragged to an empty space in the DATA ANALYSIS folder. This triggered the creation of a new node. A descriptive name that reflected the contents of the idea node in the participant's folder was then given in the dialogue box that immediately appeared. A similar idea node from a different participant was then opened and its contents dragged into the newly created node.

For example, in the WONO folder, the RECRUITMENT node was opened. The contents of this node were then dragged into an empty space in the DATA ANALYSIS folder (WONO'S parent folder). This generated a new node that was named RECRUITMENT. Another participant, Darus, also talked about recruitment from a different perspective. Other participants also described their experiences during this stage of the pilot project.

Although what the participants said provided individualised views, they all talked about recruitment. So, these ideas were stored in the RECRUITMENT node in their respective folder (e.g., Wono’s folder, Darus’s folder and so on). The content of these nodes was copied into the RECRUITMENT node in the DATA ANALYSIS folder created previously for Wono. This resulted in a single node named RECRUITMENT in the DATA ANALYSIS folder that contained all related statements from various participants. They all spoke about recruitment seen from different points of view.

- c. The steps described above were repeated for all ideas. Each idea was given a name that provided a brief description of what the idea was about. As an example, stage 1 of this research resulted in 11 distinct ideas grounded on the participants’ views (Table IV.7).

Again, this process is described in a linear fashion so that it is easier to follow. In reality, it involves messy, back-and-forth activities between the raw data from the interviews and the more abstract ideas.

Table IV.7 Repeating ideas: sample from stage 1

No	Idea number	General Idea
1	Idea 1	Recruitment
2	Idea 2	Being exemplary
3	Idea 3	Caring supervisors
4	Idea 4	Pay rise
5	Idea 5	Further education
6	Idea 6	Thorough examination of the penalty system
7	Idea 7	Togetherness
8	Idea 8	Teamwork
9	Idea 9	Spirituality and religiosity
10	Idea 10	Considerate closeness
11	Idea 11	External pressure—IMF’s role

The next step was generating concepts based on the repeating ideas created previously.

(iv) Generating Concepts

In this stage, the repeating ideas were organised into a larger set that represented a similar topic. The steps described below are based on the list of repeating ideas in Table IV.7 using idea 1 to idea 3 as examples. The rest of the ideas follow the same steps. The steps are as follows:

1. This process began with idea 1 (recruitment). This idea encompassed events before the pilot offices were operational. This captured the idea that the recruitment process was done in such a way that it was able to select participants with distinct characteristics. Other ideas, however, seemed to relate to situations after the pilot offices were up and running. As such, it was decided that idea 1 (recruitment) should stand on its own. As this idea represented tax officers who were willing to change—but nevertheless were afraid to do so—it was decided that idea 1 (recruitment) should be included in a non-operative militancy concept.
2. Moving on to idea 2 (being exemplary), it could be seen that this idea captured participants' accounts describing their superior as one who led by example. They not only talked; they did what they said. An idea that seemed to express a similar concept was idea 3 (caring supervisors). This idea contained participants' revelations that in the pilot offices, they had superiors who cared for their subordinates, sometimes beyond their normal official duties. Idea 2 and idea 3 therefore both talked about common characteristics of the participants' superiors. As such, it seemed appropriate to include these two in the umbrella concept of supportive superior.
3. Step 1 and step 2 were repeated for all repeating ideas listed in Table IV.7. This resulted in five distinct concepts (Table IV.8). Note that Table IV.8 contains 9 ideas taken from Table IV.7 and one new concept listed as Concept 1, which was not seen in Table IV.7. Concept 1 was aimed at capturing events prior to the pilot project (see discussion in step number 4 and step number 5).

Table IV.8 Concept hierarchy

Concept 1: Non-operative militancy
Concept 2: Reward
<ul style="list-style-type: none"> • Pay rise • Further education
Concept 3: Thorough examination of the penalty system
Concept 4: Supportive supervisor
<ul style="list-style-type: none"> • Being exemplary • Caring supervisors
Concept 5: Positive working environment
<ul style="list-style-type: none"> • Togetherness • Teamwork • Considerate closeness • Spirituality and religiosity

4. The hierarchy described in Table IV.8 left two concepts uncategorised. These were idea 1 (recruitment) and idea 11 (IMF's role). It was decided in the previous section that idea 1 (recruitment) would be included in the concept of non-operative militancy. This left idea 11 (IMF's role). This idea basically contained participants' accounts about the role of the IMF during the project. This idea captured recollections of how a third party affected the continuity of the project. It therefore constituted an external intervention. Thus, it was decided that idea 11 (IMF's role) should stand alone under the concept of external pressure.
5. When this decision to use an external factor as a distinct concept was made, it was then also decided that the concept hierarchy in Table IV.8 should not stand as separate concepts. As they all represent what happened at the pilot offices, a new concept named internal factors was created to cover all ideas listed in Table IV.8. This whole process resulted in the analytical categories shown in Table IV.9.

Table IV.9 Analytical categories

I. Internal pressure
Concept 1: Non-operative militancy
Concept 2: Reward
<ul style="list-style-type: none"> • Pay rise • Further education
Concept 3: Thorough examination of the penalty system
Concept 4: Supportive supervisor
<ul style="list-style-type: none"> • Being exemplary • Caring supervisors
Concept 5: Positive working environment
<ul style="list-style-type: none"> • Togetherness • Teamwork • Considerate closeness • Spirituality and religiosity
II. External pressure
Concept 6: External pressure—IMF's role

(v) Deciding the Main Concept

Concepts listed in Table IV.9, in essence, represented the efforts of those involved in the pilot project reform to refrain from committing the corrupt manner commonly practiced at the DGT at that time. These efforts—as described by Bunali—could only be successful if there was an intention to change from those involved in that project. Another participant,

Darus, described this intention as *ruh reformasi* (the reform spirit, which basically referred to the intention of tax officials involved in the pilot project not to engage in corruption or other misbehaviour, and thus were reformed). It was decided that Darus's words be used as the main category for stage 1 of this study as the phrase seemed to represent all of the concepts in Table IV.9.

(vi) Writing Theoretical Narrative

Creating theoretical narrative was the last stage of data analysis in this research. Here, the theoretical constructs resulting from the previous step were reorganised and retold into a personal story describing the participants' experiences.

A useful approach for this was diagramming. Diagrams are basically visual tools used to illustrate relationships among concepts.⁶⁶⁶ In this research, the researcher first used a pen and paper to create sketch diagrams depicting the relationship among concepts. The sketching process began as early as the initial data analysis after each interview was concluded. These sketches were continuously revised as new data were obtained and analysed. They were redrawn later using the computer software Microsoft Visio. The complete visual representation is presented in Appendix I–III and the theoretical narrative in this research project can be seen in Chapter V and Chapter VI.

(d) The Coding Procedure: Stage 2

Based on stage 1, the next step was to determine how the findings applied to the current situation (Figure IV.6). It should be noted that although specific findings from stage 1 may not be directly applicable to the current situation, the more abstract concepts may still be valid. Stage 2 therefore began with the main concept of stage 1 (the reform spirit) to examine how it applies to the current situation.

The general strategy for data analysis in principle was similar to that at stage 1. However, stage 2 built on information obtained during stage 1. As such, the selection of research participants was slightly different (see Section II.C.2). Details for the participants are summarised in Table IV.3.

Data were collected mainly based on unstructured interviews, both face to face and online. The topics raised during the interviews emerged from what was learnt in stage 1 and ongoing issues raised by participants. Details of the interviews are presented in Table IV.5.

⁶⁶⁶ Corbin and Strauss, above n 126.

The coding procedures in stage 2 generally followed a similar process as in stage 1. However, the coding was conducted based on the knowledge obtained from stage 1. As an example, a participant named Asta mentioned that he experienced lack of team work. This provided an opposing account to those provided by participants in stage 1. Another example was when Rosa mentioned that her religion provided a strong motivation for her. This resonated with what was expressed by Siti when she described her experience in the pilot office. These two accounts provide examples that findings from stage 2 correspond—albeit sometimes negatively, as in Asta’s case—with findings identified in stage 1.

There were also occasions where what was expressed by the participants in stage 2 did not match any existing concept. In that case, a new concept was created or the existing concept was modified. For instance, the IMF does not have an influence on the current DGT the way it influenced the tax office when the pilot project reform was conducted (as seen in stage 1 of this research). However, this does not mean that external pressure was absent. This could be seen, for example, when disappointment was expressed by a participant during the group discussion at being mistreated by an AR.

The findings from stage 2, therefore, showed some consistency with the findings of stage 1. Stage 2 exposed some concepts identified in stage 1 that were also considered important in stage 2. A certain gap arose when these concepts were significantly less practised or simply absent. This could be seen, for example, in the lack of team work mentioned by Asta. It was therefore decided that the main category in stage 2 be named as the gap model (Table IV.10), which is discussed in detail in Chapter VI.

Table IV.10 Concept hierarchy: gap model

I. Internal gaps
A. Expectation Gap A: staff expectations
B. Expectation Gap B: supervisor expectations
C. Communication gap
II. External gap
• Taxpayer expectation—office performance

The findings from stage 1 and stage 2 were ultimately combined to form an overall concept hierarchy presented in Table IV.11 and Appendix II. Table IV.11 generally illustrates that there are two factors that need to be considered in improving the performance of the tax office: the gap factors and other factors.

Table IV.11 Concept hierarchy: overall model

I.	Gap factors
A.	Internal gaps
1.	Expectation Gap A: staff expectations
2.	Expectation Gap B: supervisor expectations
3.	Communication gap
B.	External gap
•	Taxpayer expectation—office performance
II.	Other factors
A.	Internal factors
1.	Religiosity/spirituality
2.	Reward and fair penalty process
3.	Teamwork
4.	Peers
5.	Attitudes towards job
B.	External factors
1.	Third-party support
2.	Data/information
3.	Revenue target

The next section discusses how rigour was addressed in this study.

III RIGOUR

In valuing the quality of research, positivists normally rely on the criterion that research should be conducted objectively and result in universally accepted theory.⁶⁶⁷ Objectivity generally corresponds to the concept of validity and reliability. Validity refers to the correctness of a conclusion, explanation or interpretation⁶⁶⁸ such that the results accurately reflect the phenomenon being studied. The same results should also be able to be obtained if the research is conducted elsewhere. This concept is known as reliability.⁶⁶⁹ Findings need to be applicable in different situations to satisfy the generalisability criterion.

Applying these concepts to a qualitative study is problematic. For a start, qualitative data are often obtained from a small number of participants, usually selected non-randomly. This makes generalisation problematic. In fact, most qualitative researchers are not interested

⁶⁶⁷ Auerbach and Silverstein, above n 653.

⁶⁶⁸ Maxwell, above n 582.

⁶⁶⁹ Lyn Richards and Janice M. Morse, *Readme First for A User's Guide to Qualitative Methods* (SAGE Publications, Inc., 3rd ed, 2013).

in extending their findings beyond their participants.⁶⁷⁰ Replicating a qualitative study is also difficult as such studies are often deeply rooted in a certain situation as their focus is to build a deeper understanding of a specific phenomenon or experience.⁶⁷¹

This leads to the fact that although establishing rigour is essential for the results of research to be trustworthy,⁶⁷² the standards for showing that research has been conducted in a rigorous manner are controversial.⁶⁷³ In this research, the pursuit for rigour was conducted based on the following checkpoints:

1. Checkpoint 1

Because in qualitative studies the researcher is the instrument, the quality of the research depends on researchers themselves.⁶⁷⁴ For this purpose, first, the researcher attended trainings on qualitative studies prepared by Curtin University. The researcher also attended a training on the use of NVivo to become familiar with the software. A number of books and articles were consulted as the research progressed.

Second, a preliminary literature review was conducted prior to data collection to obtain background knowledge. This was enriched by the researcher's own experience while he was working as a tax officer in Indonesia. To prevent pre-existing knowledge from interfering with the data, the researcher used memos to record his initial impressions and potential personal biases.

2. Checkpoint 2

This checkpoint generally followed Figure IV.10.

⁶⁷⁰ McKerchar, above n 509, 260.

⁶⁷¹ Eileen Thomas and Joan K. Magilvy, 'Qualitative Rigor or Research Validity in Qualitative Research' (2011) 16(2) *Journal for Specialists in Pediatric Nursing* 151.

⁶⁷² Matt Bradshaw and Elaine Stratford, 'Qualitative Research Design and Rigour' in Iain Hay (ed), *Qualitative Research Methods in Human Geography* (Oxford University Press, 3rd ed, 2010) 69.

⁶⁷³ Corbin and Strauss, above n 126.

⁶⁷⁴ Richards and Morse, above n 669.

This figure is omitted in this version of the thesis due to copyright restrictions.

Figure IV.10 Establishing rigour⁶⁷⁵

As the research progressed, what was stated by a participant was checked with another participant. The fact that the participants were from diverse backgrounds (Table IV.2 and Table IV.3) was useful as it provided multiple views on a certain issue. A number of documents were also consulted to add another layer of verification.

During data analysis, this research used the literature to help understand the participants' narration. However, the emerging concepts were rooted in the validated views of the participants. This ensured that the research followed the participants' accounts and prevented the possibility of the researcher imposing his personal subjectivity, particularly if it was not supported by the data.

As the research progressed further, knowledge was built up. To accommodate this growing knowledge, data analysis was not based on a rigid coding system, but rather it flowed in a flexible manner to cover new information as it was obtained. New information raised by a participant was verified with a different participant later on. As a safeguard against potential researcher bias or misinterpretation, drafts of diagrams describing the researcher's interpretation were presented to selected participants for review. In addition to providing an opportunity to add new information, this step ensured that the participants could check if the findings reflected what they reported.⁶⁷⁶

Another aspect of maintaining rigour is ensuring transparency in data analysis. It is for this purpose that this chapter includes a lengthy explanation on how the data were analysed,

⁶⁷⁵ Adapted from Bradshaw and Stratford, above n 672, 78.

⁶⁷⁶ David R. Thomas, 'Feedback from Research Participants: Are Member Checks Useful In Qualitative Research?' (2017) 14(1) *Qualitative Research in Psychology* 23.

including technical details on how NVivo is used, as a way to inform the reader about how the researcher arrived at the conclusions.

3. Checkpoint 3

Findings from stage 1 guided data collection and analysis in stage 2. This design helped the researcher maintain the *validity* of the research process. As it turned out, most concepts identified in stage 1 survived in stage 2, albeit with slight variations. This provided an indication that the research was *on the right track*.

IV ETHICAL CONSIDERATIONS

Prior to conducting data collection, ethics clearance was obtained from the Human Research Ethics Office, Curtin University (ethics approval number: RDBS-08-15) for a period of four years from 27 February 2015 to 27 February 2019.

To maintain the privacy of participants, the following steps were taken:

1. All participants were assigned pseudonyms.
2. Names were replaced by pseudonyms in transcripts, the thesis and other research reports based on this study.
3. Any potentially identifiable information (such as WhatsApp user name, Facebook account name, or title and period that a participant had in office) was removed.
4. Data were stored in a password-protected computer.
5. Audio interviews were destroyed at the completion of the study.

All participants were given an information sheet and consent form (see Appendix IV) that provided an explanation for how the data were managed and used throughout the study. They were also informed that they could withdraw at any time.

V CONCLUSION

This chapter provides a detailed explanation of how this study was conducted. The research design is outlined, from the abstract concept of a paradigm to the detailed technicalities of using NVivo throughout the data coding and analysis. The purpose of such a thorough description is to provide a detailed account to readers of how the study was conducted so that they are informed about how the researcher arrived at the conclusions. This thesis then moves on to Chapter V and Chapter VI to present the theoretical narrative of the findings.

CHAPTER V

ANALYSIS OF FINDINGS: THE PILOT OFFICES⁶⁷⁷

I INTRODUCTION

As outlined in Figure IV.6 in Chapter IV, this thesis adopts a two-step strategy in an attempt to address the research questions presented in Chapter I (Section III). Stage 1 of this study (see Figure IV.6 in Chapter IV, Section II.C) aimed to provide an answer to sub question 1. It delved into the issues surrounding the tax administration reform pilot project. This project signified an important milestone in DGT reform, where the integrity of tax officials was one of the main concerns. The purpose of stage 1 was to shed light on how the tax offices in this project were managed. This later acted as a starting point from which current Indonesian tax administration is evaluated.

For this purpose, at this stage, 10 in-depth interviews were conducted with seven participants with first-hand experience of the reform pilot project (see Table IV.4 in Chapter IV, Section II.C.3). Chapter V provides a summary of the concepts that emerged from this series of interviews, which generally offered an answer to Research sub question 1 (investigating the aspects of tax administration that were essential in the success of the pilot offices). A visual representation of the relationships among these concepts can be seen in Appendix I. This chapter is organised as follows:

1. Section I : Section I provides the general introduction to this chapter.
2. Section II : Section II outlines the general findings from stage 1 of this study. A discussion of the concepts and categories derived from the data is presented in this section. It is organised into seven sub sections; each presents a key theme identified at this stage. The section concludes with a general discussion on how the themes are interconnected. A graphical representation of this relationship is presented in Appendix I.

⁶⁷⁷ This chapter draws heavily from Prasetyo, Kristian Agung, 'Tax Administration Reform in Indonesia: Some Lessons Learned' (2017) 12(1) *Journal of The Australasian Tax Teachers Association* 77.

3. Section III : Section III integrates the key concepts identified in Section II.
4. Section IV : Section IV concludes this chapter.

This chapter now moves on to Section II, which presents the findings from stage I of this study.

II CONCEPT IDENTIFICATION

[T]hey had a strong desire to change. (Bunali)

This section discusses the concepts and categories derived from the data (Table V.1). The core theme was coded as 'the soul of reform'. This term was used by Darus in his critique of DGT's organisational reform process. He posited that changing the DGT's organisation was easy. The more difficult task, he argued, was reforming the mind of those working at the DGT. He said that the pilot offices were successful because there was the soul to drive the change. This, he said, was not present in the post-2007 reform.

Table V.1 Analytical categories: stage 1

Internal pressure
Concept 1: Non-operative militancy
Concept 2: Reward
<ul style="list-style-type: none"> • Pay rise • Further education
Concept 3: Thorough examination of the penalty system
Concept 4: Supportive supervisor
<ul style="list-style-type: none"> • Being exemplary • Caring supervisors
Concept 5: Positive working environment
<ul style="list-style-type: none"> • Togetherness • Teamwork • Considerate closeness • Spirituality and religiosity
External pressure
Concept 6: External pressure—IMF's role

Sections A to F discusses these concepts in more detail.

A Concept 1: Non-operative Militancy

The main concern during recruitment for this study was selecting 'the appropriate' staff. The key was to select people who, according to a participant, Bunali (see Table IV.2, in Chapter IV for the list of participants), '[had] an intention to change'. This means, according to Goffman,

separating the sincere from the cynics.⁶⁷⁸ This turned out to be difficult as those who had such intention to change, Bunali continued, often went unnoticed. He said:⁶⁷⁹

Perhaps among those ... there were some who were not happy with the old [corrupt] behaviour. The thing is, they did not have the courage to scream, to express [their concerns], perhaps to be considered as those who did not take [the bribe], or become a minority. (Bunali)

This was because the applicable norm at that time was that it was acceptable for one to be honest so long as one was silent because being otherwise would most likely mean being alienated.⁶⁸⁰ This can be seen for instance in Aribowo's experience. In a book published to commemorate the tax reform project, Aribowo wrote about an experience of one of his colleagues who was the head of a section in one of the technical units.⁶⁸¹ Technical units were considered places where there were more opportunities to obtain additional income illegally from taxpayers, an issue which was also raised by Heij.⁶⁸² This usually implied units with more intense contact with taxpayers. From the most to the least desirable unit, these included the tax auditor office, VAT section, corporate income tax section, individual income tax section and withholding tax section. These units were generally more desirable because of the opportunity to obtain significant income, albeit illegally, from taxpayers.

So, as was typical, Aribowo's colleague was asked by his supervisor to contribute to a so-called 'tactical' fund. This pool of funds was normally used for various unofficial activities such as bribing external auditors or paying for private assistants or even charities. When Aribowo's colleague showed reluctance, it seemed that everything he did from then on was considered unsatisfactory. He was often subject to his supervisor's annoyance and anger. Aribowo wrote.⁶⁸³

⁶⁷⁸ Erving Goffman, *The Presentation of Self in Everyday Life* (Allen Lane, 1969).

⁶⁷⁹ All interviews were conducted in Bahasa Indonesia. For presentation in this thesis, excerpts from these interviews are accompanied by their English translation.

⁶⁸⁰ J Danang Widoyoko, 'Pola-Pola Korupsi Pajak', *Koran Tempo* (Jakarta), 13 April 2005 <<http://www.antikorupsi.org/en/content/pola-pola-korupsi-pajak>>.

⁶⁸¹ Irwan Aribowo, 'Terbang di Awan' in Agus Budihardjo et al (eds), *Berbagi Kisan dan Harapan: Perjalanan Modernisasi Direktorat Jenderal Pajak* (Direktorat Jenderal Pajak, 2009) 19.

⁶⁸² Heij, above n 5, 17.

⁶⁸³ Aribowo, above n 681, 19.

In every meeting, he was always subjected to his supervisor's anger, from every angle he was considered wrong. ... [I]t was clear that his supervisor always cornered him and considered him unqualified. Such anger and disappointment were felt by Mr XXX as being due to his supervisor's desire for Mr XXX to contribute more to the tactical fund. (Aribowo)

Mr XXX was an example of a tax official who was alienated because of his reluctance to participate in the corrupt system at the DGT before the reform project was initiated. Mr XXX did not want to take illegal payments from taxpayers (but ultimately did so because of the alienation). Mr XXX is an example of a person who—in Bunali's words—'[had] an intention to change'.

This change however failed to take place due to the unsupportive surrounding circumstances that made the alienation of Mr XXX possible. Bunali believed that Mr XXX would likely be unable to take illegal payments from taxpayers if his circumstances were different. According to Bunali, this change in circumstances was made possible by the IMF through its pilot project reform. Bunali called this change of circumstances 'the door that opens':

So, when it [the intention to change] came to the surface ... it simply failed and came down again. But actually, internally, it was already there. It was waiting ... the door to open. (Bunali)

As had been said, selecting staff who were internally ready to change was difficult. For this purpose, a formal selection test was administered.⁶⁸⁴ Interestingly, another participant, Wono, noted that those who decided to sit this test were ones he believed to be non-wealthy, who most likely were not from the technical units. He reported that 'the persons who took the assessment were those who basically were at a lower level of income'. Those on the other end of the income scale, he recalled, mostly decided not to join a pilot office as they chose to 'step aside ... [and] not to join [a pilot office], [until] later [where they have no other option but to join]'. This is because joining a pilot office meant that they would lose the opportunity to obtain additional income illegally from taxpayers, which was generally more than the pay rise offered by pilot offices.

⁶⁸⁴ A participant (Wono) noted that the selection test was similar to the Academic Aptitude Test. This test was developed by the Overseas Training Office of the Indonesian National Development Planning Agency to measure the academic aptitude of potential candidates of overseas training programmes.

It was in this situation that Wono noted that for him the true test took place at the time when he decided to register for the assessment. He said, '[the selection] was when you decided to take the assessment or not'. When this was mentioned to a different participant, Darus, who was involved during the staff selection process for the pilot project, he exclaimed with excitement '*Itu!!*' (That's it!), confirming his agreement with Wono's view. Darus said that the formal written assessment was only used as a means to reduce the number of applicants to fit the number of vacant positions: 'The point is that it was only a formality, just as a means for shortlisting'.

Thus, those who joined a pilot office, according to Wono, had a strong commitment to change and simply wanted to work professionally: 'Those who first joined were those who had a commitment, which meant ... well, I am just looking for a place where I can just do my job, just like that'.

In Darus's words, they were committing *hijrah*, (*hegira* in Latin), which in Muslim tradition signifies the act of leaving negative behaviour or sins (interpreted as corruption in this context) into the way of God;⁶⁸⁵ he perceived such people to be *militant*:

I think, perhaps how should I say it, right, this was the end, ..., now we do *hijrah*, if this word is to be used. We do *hijrah*, we do the best, without asking anything unusual [in relation to bribery], we provide the best service. (Darus)

Bribery occurring at the tax office at that time could generally be categorised into three types: autogenic–extortive, transactive–autogenic and transactive–nepotistic.⁶⁸⁶ Autogenic–extortive corruption takes place when tax officials demand illegal payments for official services under their authority. This, for example, happens when a tax official provides a more favourable treatment to a certain taxpayer in exchange for a monetary benefit. The transactive–autogenic pattern, on the other hand, takes place when a tax official negotiates with a taxpayer to reduce their tax liability—normally during an audit—in exchange for a certain amount of personal payment.

Another pattern of corruption is the transactive–nepotistic pattern where a tax official and a human resource official come to an understanding about the unit of placement of that tax official in exchange for a monetary benefit. This includes placement in a 'lucrative unit',

⁶⁸⁵ Aswadi, 'Refomulasi Epistemologi Hijrah dalam Dakwah' (2011) 5(2) *ISLAMICA: Jurnal Studi Keislaman* 339.

⁶⁸⁶ Widoyoko, above n 680.

which means a unit, preferably a technical division, in a tax office with many large taxpayers (with whom other patterns of corruption can be exercised later), or placement in a non-remote area.

It is in this context, according to one participant, that 'those who first joined were those who had a commitment'. That participant was referring to a situation where there were tax officials continuously taking illegal payments and at the same time, there were others who wanted to cease taking such illicit payments. The latter type of official saw pilot offices as an escape route. Such officials were what that participant denoted as 'those who had a commitment'. Nevertheless, because they stayed silent, perhaps through fear of being excluded or risking being transferred to a remote office,⁶⁸⁷ their intention to desist from negative behaviour stayed dormant. A participant noted that some tax officials who disliked corrupt behaviour remained silent and did not have the courage to voice their concerns, as they were in the minority. This is what Bunali meant by 'politically undesirable'.

Stories of these conflicts were later documented in a book entitled *Berbagi Kisan dan Harapan: Perjalanan Modernisasi Direktorat Jenderal Pajak (Sharing Stories and Hopes: The Journey of the DGT's Modernisation)*, which was published to commemorate the commencement of the nation-wide tax administration reform.⁶⁸⁸

Another route to working at a pilot office was through education. One of the participants remembered that he was assigned at one of the LTOs soon after graduating from college—as one of the top students—and did not need to undertake an assessment test:

[I]Initially in 2003 I started working at the LTO when it was established just after graduating from DIV [a bachelor-level degree awarded by the Government College of Accounting]. At that time, there were 10 people assigned to the LTO by Mr ... [who]; at that time he was in charge at the human resource department. So, there were 10 of us, four in LTO II, four in LTO I and two in the regional office. I was in LTO II. So, [my assignment at that office] was based on the official order made by the HR [human resources] department, without doing any assessment. It was [basically based on our rank at college] as those 10 graduates had a GPA [grade point average] of around 3.4.
(Jojon)

⁶⁸⁷ Ibid.

⁶⁸⁸ Agus Budihardjo et al, *Berbagi Kisan dan Harapan: Perjalanan Modernisasi Direktorat Jenderal Pajak* (Direktorat Jenderal Pajak, 2009).

As a result, the recruitment process was able to select tax officials who potentially had the intention to not be involved in the negative behaviour—Darus called this intention *hijrah*—widely practised at the tax office at that time, and a cohort of fresh graduates with good academic skills.

B Concept 2: Reward

The concept of *reward* basically represented an external incentive that served the purpose of attracting potential tax officers to join the pilot project. Unlike the non-operative militancy—an internal drive for change within a person—this concept works at the other end of the continuum of forces for change. There were two themes raised by the participants in this study: pay rise and further education, which are discussed in detail in the following sections.

1 Pay Rise

The reward concept deals with incentives used to attract DGT officials to join a pilot office. While concept 1 talks mainly about intrinsic motivation, concept 2 acts as part of extrinsic motivation. The first incentive under this concept was a financial incentive in the form of a pay rise. Romlah, for instance, was attracted to join the pilot project because the salary was higher than what she had normally earned. In her case, she needed the money to cover her home renovation costs:

Why was I interested [to apply]? Because at that time people told me that the salary would be higher. I wanted to fix my house, I did not have any money. In the end I chose ... maybe it was one of my solutions so that I could have a better salary and fix my house. Because my house was ... well ... like that. (Romlah)

It was recognised that *hijrah*⁶⁸⁹ (leaving the bad practice)—as mentioned by Darus in the previous section—alone would not be sufficient if the income awarded to these officials was insufficient to cover basic needs. Lower wages were assumed to be one of the main causes of corruption in Indonesia at that time,⁶⁹⁰ which was particularly rampant at the tax office.⁶⁹¹

⁶⁸⁹ Hijrah generally means leaving bad practices, and thus it is a general concept. Individuals of various faiths often come to realise that they need to leave a particular habit (for example excessive consumption of drugs, cigarettes, or alcohol) for certain reasons, such as age or health. When this happens, they significantly reduce or completely stop that habit. In Muslim tradition, this particular decision is called *hijrah*.

⁶⁹⁰ Heij, above n 5.

⁶⁹¹ Widoyoko, above n 680.

The literature had suggested that corruption occurred when its benefits exceeded the penalties of being caught.⁶⁹² Thus, corruption could be reduced by increasing either wages or penalties, making pay reform essential.⁶⁹³

Such pay reform was seen as essential for the success of the pilot project. As discussed in Chapter I, this project was one of the IMF initiatives to help improve Indonesia's economic conditions following the severe financial crisis that hit Asia in the late 1990s.⁶⁹⁴ Tax administration reform was seen as a key component of generating revenue by helping taxpayers to comply and enforcing tax rules with respect to those who failed to do so.⁶⁹⁵

In this context, the Indonesian government, in a Lol sent to the IMF, outlined a plan to establish a special unit to administer large taxpayers by June 2002.⁶⁹⁶ These taxpayers were of interest as they were not only the largest source of tax revenue, but also quite often were the largest investors.⁶⁹⁷ The pilot project, of which the LTO was part, was designed to showcase how to improve overall tax administration. Darus, who was involved in the LTO's establishment, provided an account that the idea to reform the tax office was actually a top-down initiative from the ministerial level:

I'd like to look at the background at that time, the initial idea was actually from Mr ... at that time he was the Minister of Finance, but it was at the top level, so there was probably, it seemed, an intention to ... how to reform the Directorate General of Taxes. (Darus)

The idea was to have an office to provide a showcase where service excellence could be seen. Darus recalled that:

One of the sub teams was tasked to think about organisation. I was a member of that sub team, among other things. It was thought, and perhaps originated from brainstorming and other things, to have a unit as a pilot project that tried to start providing excellent service. (Darus)

⁶⁹² Gary S. Becker and George J. Stigler, 'Law Enforcement, Malfeasance, and Compensation of Enforcers' (1974) 3(1) *The Journal of Legal Studies* 1.

⁶⁹³ Ferry Ardiyanto, *Foreign Direct Investment and Corruption* (Doctor of Philosophy Thesis, Colorado State University, 2012) <https://dspace.library.colostate.edu/bitstream/handle/10217/71542/Ardiyanto_colostate_0053A_11539.pdf?sequence=1>.

⁶⁹⁴ Brondolo et al, above n 21.

⁶⁹⁵ Alink and Kommer, above n 120.

⁶⁹⁶ Gol, above n 20.

⁶⁹⁷ Brondolo et al, above n 21.

As part of providing excellent service, a strict code of conduct to improve tax officials' integrity and curb corruption was introduced.⁶⁹⁸ However, it was realised that the salary for civil servants—including tax officials—was barely sufficient to cover their basic needs, a condition that generally is associated with high corruption. This problem was not initially recognised, as Darus acknowledged. Thus, he pushed for a pay rise to be approved:

A year later [after the pilot project was officially commenced], I said to Mr ..., 'Sir I think it'd be a nonsense if we were to be honest but at the same time, our take-home pay is barely sufficient to cover the first two-weeks basic expenses. They need to survive Sir. Where can they get the money to cover the remaining two weeks?'

'That is rather confusing'.

'Indeed, Sir'.

'The problem is that our salary system is already set that way. Could you please think of a work around?'

In the end, there came an idea to provide an allowance only for staff at the Ministry of Finance. And for a special case only for ... Can you please do a calculation? I was then doing the math. We had at that time grade IV, grade III, grade II and grade I, but apparently we did not have [staff that belonged to] grade I. Then we tried to do a simple calculation based on ... errr ... minimum standard of living. How much for grade II, grade III, grade IV. This standard was not a luxury at all. We made assumptions about the number of children, education costs and so forth and how much for eating, education, health, transportation, that kind of stuff. Grade II took the train, grade III took ... it was like that, approximately. It was ... then we averaged ... grade IV a, b, c, d—we averaged. And then I asked [Darus asked one of his staff at the LTO], how much money do you currently make? Well, apparently there was quite a large gap. This gap was closed. Like that. It was a rather large sum of money at that time. (Darus)

Generally, the idea of a pay rise—even though it was a fair consequence of the strict application of the code of conduct—was initially not received well. Darus mentioned this when he described a meeting he attended, although later on, his move was eventually fruitful. So, it can be seen here that in this case, willingness to push from the bottom and support from the top were essential for the pay rise to be awarded:

⁶⁹⁸ Ibid.

Then I did a presentation [on the pay rise] to the Director General of State Budget, at that time Mr ..., Mr Secretary General, Mr ..., who else [were there too]. I was still head of the ... It was a five-minute presentation. Then Mr ... [said], 'Actually that amount is not so ... is it? It is logical, isn't it?'

Afterwards, Mr ... [from the state budget office] said, 'Well, yes, but it cannot be done'. 'Why is that Sir?'

'What is going to happen to the others if this is only for the tax office, for the LTO only, and not for the whole tax office?'

But I already mentioned that if this was going to be a continuous programme, then it was a good starting point. Later, if someone else wanted to make a similar programme change, [they have to] change themselves first. [They can] Use us as a model.

Then they were all confused. There was no objection to the monetary value, as they said it was ... fair.

And then Mr ... said, 'Okay, agreed. And draft a Minister of Finance regulation [on this issue]'.

Mr ... who was [at that time] the head of the regional tax office was later called [to a meeting], 'Mr ... I already signed this [Minister of Finance Regulation on the pay rise]. The state cannot afford to offer higher than this. But I entrusted it to you so that they [tax officials at the LTO] understand [and maintain] their integrity'. (Darus)

In this context, low wages in public sector institutions were assumed to be one of the main causes of corruption, which was rampant at the tax office at that time.⁶⁹⁹ Generally, corruption, according to Becker and Stigler, occurs when the future benefits of corruption exceed the total perceived or actual penalties.⁷⁰⁰ Further, if one's income is less than one's notion of a fair wage, one will try to maximise the benefit of corruption.⁷⁰¹ Thus, pay reform—as part of more comprehensive civil service reform—may be viewed as a way to decrease corruption.⁷⁰²

⁶⁹⁹ Widoyoko, above n 680.

⁷⁰⁰ Becker and Stigler, above n 692.

⁷⁰¹ George A. Akerlof and Janet L. Yellen, 'The Fair Wage-Effort Hypothesis and Unemployment' (1990) 105(2) *Quarterly Journal of Economics* 255.

⁷⁰² Ardiyanto, above n 693.

In the Indonesian tax administration context, a similar idea was suggested in the early 1990s.⁷⁰³ Interestingly, many at the tax office were reluctant to embrace it as it reduced the possibility to obtain income from 'shady' sources, which formed a substantial part of many tax officials' income at that time.⁷⁰⁴ In the end, during the pilot project initiation it was viewed that a pay rise was important to help tax officers at pilot offices cover their living costs and in turn, was essential for encouraging them to work professionally.

2 Further Education and Innovation

Another aspect that was considered important was that there were avenues for staff to develop their knowledge. The pilot project was able to attract staff who committed to do *hijrah* (deserting bad practice) and those who *had commitment*. In short, it was able to select staff who chose only to do their job professionally without *asking anything unusual*. It also recruited graduates who were outstanding academically. Subsequently, it was seen that providing the correct form of incentives was important, particularly to maintain their existing working spirit, provided that, in Romlah's words, the incentives were given honestly:

Supervisors had to be honest [about] who needed to be rewarded, who [needed to be given an opportunity to] study further ... was awarded a reward, incentives, to maintain their working spirit. (Romlah)

In this case, in addition to the pay rise, for certain staff with exceptional performance, a different type of incentive was given. Romlah recalled that when she was able to settle a significant amount of arrears, she was given an opportunity to study overseas:

You could imagine; I was one of those staff who was awarded with such an incentive. ... because I was able to obtain a tax settlement on a significant amount of tax arrears, I was awarded the opportunity to go overseas to study. (Romlah)

In addition to this type of opportunity, the IMF was relatively generous in facilitating in-house training:

I kind of liked it too, the IMF was very accommodating regardless of their motives: 'What kind of training do you need?' They invited the experts to come; experts in the oil industry, in mining, all paid for by the IMF. This enabled us to understand that to

⁷⁰³ Heij, above n 5.

⁷⁰⁴ Ibid.

have oil ready, to have coal, required such a long process. And then the banking industry, the kind of business that related to that industry... (Romlah)

The knowledge obtained by these staff was then disseminated to others through routine meetings:

It was routine, it was a monthly agenda, at the LTO—knowledge sharing. Why? Because it was those ARs who had that knowledge. Knowledge sharing about tobacco ... in the end, the head [of the tax office] made a ruling regarding whether [based on this] it was to be tax as a final tax or not. (Romlah)

If an incentive scheme such as this was offered, staff were apparently motivated to act quickly. One participant reported her fascination that a less experienced staff was able to produce comprehensive mapping of taxpayers' businesses:

That, for me, was fascinating. When the supervisor, how should I say it, gave an incentive, the fact was, in the field, those kids acted much faster than what I initially thought. I was in one of the sessions, and was wow, this guy was very good. A junior staff who, I must apologise, had much less experience compared with me, but he was able to do mapping on all of those things so quickly. Where did you get all the information? He apparently did a Google search and other searches everywhere. That was only the beginning. (Romlah)

Another participant, Siti, noted that when she worked at one of the STOs during the pilot project initiative, she could go freely to other divisions to learn from her colleagues. She remembered that what she did was encouraged by her supervisor when she was advised that being unskilled in a certain area of tax was not something to be ashamed of. She was encouraged to ask questions of anyone she considered more knowledgeable. In Siti's case, the knowledge sharing happened informally, rather than through formal in-house training organised in the LTO as experienced by Romlah. Regardless of its form, knowledge sharing took place in both the STO and LTO nonetheless.

A desirable effect of this knowledge sharing was that it stimulated innovation. Romlah, for instance, described a training session she attended with a Singaporean expert in the oil industry as the training facilitator. She added that one outcome of that training was that one of the ARs wrote a guide on business processes in the oil industry and its taxation arrangements. Another innovation was the introduction of the accelerated refund. It was recognised that one of the problems was that all taxpayers claiming refunds were audited. This

was undesirable, especially for exporters. A simplified refund programme was then introduced, which improved taxpayers' cash flow and reduced the resources allocated to audits. Later, this initiative was codified into tax administration law as article 17C of Law No 16 of 2009.

Here, it can be seen that when a pilot office was able to attract qualified and motivated staff and provide them with the correct blend of incentives, this in turn stimulated them to be innovative. In this case, the role of supervisors was essential to create a situation in which knowledge sharing could take place. This situation led not only to better qualified staff, but also staff willing to share their knowledge with others. This made it possible for a success story to be replicated elsewhere. Here, it could be seen that providing monetary benefits alone may not be sufficient to bring out the best in people. In this case, in addition to the pay rise, performance recognition was given in the form of opportunities to study overseas or participate in training. Recognition, after all, has been seen as more important than money in motivating employees.⁷⁰⁵

C Concept 3: Thorough Examination of the Penalty System

In addition to providing rewards as described in the previous section, a fair penalty system was put in place. If a staff member allegedly violated an applicable rule, a thorough investigation of the causes of the breach was carried out. Romlah, for instance, recounted an incident in which she was involved as part of the investigative team. The incident involved an AR who was accused of causing a taxpayer to receive their Notice of Tax Overpayment Assessment late. This event triggered interest to be accrued and paid to the taxpayer. On the tax office side, a penalty had to be imposed on those who had caused the late payment, as the interest payment was seen as detrimental to the state's financial position. Romlah recalled that the penalty was, however, not imposed on that particular staff member because at that time, due to lack of a clear procedure, it was not certain who had the responsibility to send the notice. It was concluded that this uncertainty was the reason for the misunderstanding that eventually led to the incident. It was concluded that although there had been wrongdoing, it was caused by an inevitable condition that made the procedure unclear. Although it was clear that a particular person was in the wrong, the cause was investigated and the whole investigation process therefore was conducted in a fair manner. Here is Romlah's recollection of the incident:

⁷⁰⁵ Marcus Buckingham, 'What Great Managers Do' (2015) (Fall 2015) *Harvard Business Review OnPoint* 44.

A taxpayer lodged a tax return and claimed a refund ... The thing is, at that time, if there was a Notice of Tax Overpayment Assessment, who was authorised to post it—the AR or the general affairs division? Because there was no standard operating procedure, the AR contacted the taxpayer ... 'Sir, your refund has been completed. Would you like to collect [the assessment notice] or would you like me to send it to you?' In the end, the taxpayer collected the notice but it was too late. Under the applicable rule, that AR was clearly wrong [because the taxpayer received the assessment late] and punishment should be imposed. But it was the inability of the organisation to provide tools that resulted in a tax officer being in a disadvantaged position. In the end, we communicated this to Internal Affairs. Legally, this person [the AR] was guilty, but it was not he that started it. It was the organisation's mistake in failing to provide a clear procedure and in the end, the case was concluded with a mutual understanding ... [and] punishment was not imposed on that particular officer. (Romlah)

D Concept 4: Supportive Supervisor

The concept of supportive supervisor is related closely to the concept of fair process of penalty, in the sense that such a process will most likely occur in a system where supervisors are supportive towards their subordinates. Two themes emerged under this concept: exemplary actions and care.

1 Being Exemplary

This theme generally stems from the customary tradition of Indonesian bureaucracy where the relationship between supervisors and their subordinates is similar to that of a father and a child.⁷⁰⁶ As children normally look to their father, the ability of the father to set a good example is essential as he acts as a point of reference. A superior in essence could be seen as acting in a similar manner when a subordinate acquires a standard of judgment⁷⁰⁷ to guide their own behaviour.⁷⁰⁸ This can be seen in the following event. Here, Darus—who was at that time the head of a tax office—was such a point of reference. This for example can be seen when Darus described a situation when he was confronted by his colleagues as a 'thorn in their

⁷⁰⁶ Agus Dwiyanto and Bevaola Kusumasari, 'Paternalism in Public Service Bureaucracy' (2001) 02/PB-E/2001 *Policy Brief*, Center for Population and Policy Studies, UGM, Yogyakarta 1.

⁷⁰⁷ Luiz Moutinho, 'Consumer Behaviour in Tourism' (1987) 21(10) *European Journal of Marketing* 5.

⁷⁰⁸ Icek Ajzen and Martin Fishbein, *Understanding Attitudes and Predicting Social Behavior* (Prentice-Hall, 1980).

side' because he worked in an office where integrity was the main concern, which was generally in contrast with the mainstream behaviour at the DGT at that time. However, even within his own office, there was a move to return to the traditional behaviour of corruption, which was still practised elsewhere within the tax office.

Darus then described his experience when he was approached by one of his tax auditors, seeking permission to extort financial benefits from auditees. Darus disagreed and maintained that this would mean that all the hard work they had done—referred to in the quote as *sacrifice*—would be in vain. Darus's decision to deny his auditor's request provided a sign that the request was unacceptable, contrary to the corrupt situation surrounding the DGT at that time. It was indeed in a context like this that the ability of a supervisor to set a good example was crucial to keeping the pilot project on the correct path.

Some said that the tax office had changed; on the contrary, some may see it as a thorn in one's side, so to speak. It was seen as not being together with others. Between quotes, of course. So I'd say that it was not ... not ... not ... what do you call it? It was not an easy journey. Even two, three years later [after the pilot offices were officially established], people started to cast doubt. Because perhaps they saw that their colleagues were still doing that [corruption]; meanwhile we were not. 'Mr Darus, we got big fish' was how they expressed it.

And then I said to them, 'Now, let me ask you something, just once'.

'It is up to you Sir, just you. Just say the word GO, come on Sir'.

They were open [to me]. And then I asked them, 'In that case, I'll ask you. Have you been feeling you are making a sacrifice?'

'Absolutely, Sir. We've been fasting for a long time. We never have an Eid celebration [Eid is a day on which Muslims celebrate after completing a one-month fasting period during Ramadhan. This is the time when they are allowed to again have meals during the day. Here, fasting was referred to as not taking money from taxpayers, and Eid, therefore, was the time to start taking illegal payments from taxpayers again]'.
...

...

I said, 'If you've been making a sacrifice all these years, then you'll only waste it [for nothing] on this very day. If you really want to do that, why didn't you do it early on. If I say, that is the sacrifice'. (Darus)

A useful framework to understanding Darus's experience is the force field framework proposed by James and Edwards. Under this framework, James and Edwards argue that tax reform is a dynamic process that continuously adapt to changes to obtain an optimal position (Figure V.1).⁷⁰⁹

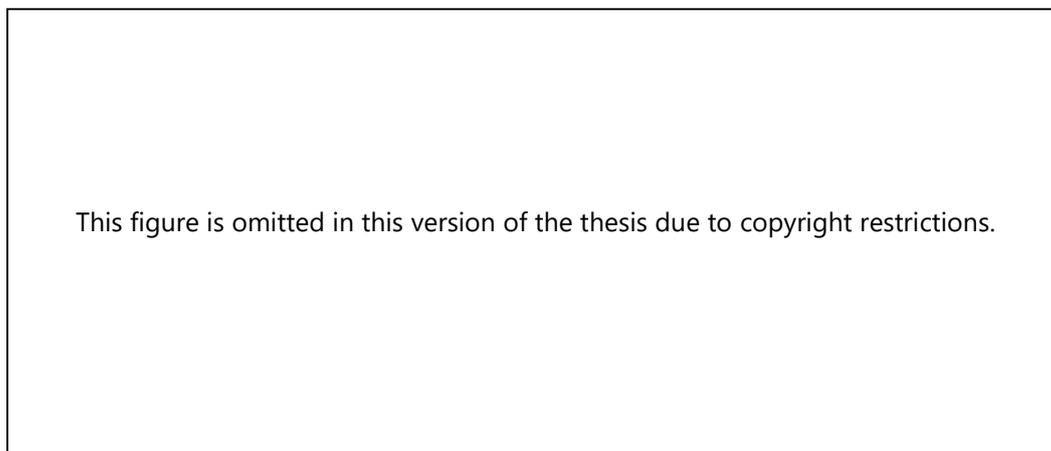


Figure V.1 The process of tax reform: the force field approach⁷¹⁰

As the tax system (the status quo) in Indonesia at the time when the project reform was initiated was considered not an optimal position—particularly due to the massive corruption—there were pressures to that system to change. In the Indonesian context, these pressures materialise as internal and external pressures (more detailed discussion on these two factors is presented in Section III of this chapter).

As in any change, some parties might be worse off because of the change and they would likely to press their case to resist the change. In Darus's situation, a resistance to change for example can be seen when he was confronted by his colleagues that he was a thorn and when he was persuaded by his auditor to authorise taking illegal payments from taxpayers. Another example is found when Darus was persuaded by his colleague to exclude certain taxpayers from the pilot project (a more detailed discussion is presented in Section II.F in this chapter). In the end—as also seen in the Indonesian pilot project reform—the change prevailed, although the resisting group still maintained an influence to deflect change from the optimal position. This resulted in an imperfect outcome, which generally was a compromise between the two opposing forces. In the Indonesian context, this compromise results in a tax

⁷⁰⁹ Simon James and Alison Edwards, 'A Strategic Approach to Personal Income Tax Reform' (2007) 22 *Australian Tax Forum* 105.

⁷¹⁰ *Ibid*, 113.

administration system—although the DGT uses both an internal and external monitoring and control system⁷¹¹—that is nevertheless still prone to corruption.⁷¹²

2 Caring Supervisors

Another key important theme under this concept is caring supervisors. This was evident, for instance, when one of the participants, Siti, was grateful when she had a supervisor who believed that it was acceptable for his subordinates to not know about certain technical issues:

I was lucky that I was assigned to an office that was led by a person and head of section that made certain conditions where if you do not know anything, it is not a sin. You're not doing wrong. If you ask questions, you're a great person. If you cannot do something, then ask, that is good. Hence, in-house training went fine. There were no ARs who felt too proud to ask questions of their colleagues ... Between sections, the relationship was quite close. (Siti)

In Siti's experience, her supervisor understood her condition: she felt rather nervous as she was worried that she was not as skilful as her colleagues at work, which triggered the condition that made it possible for employees to exchange knowledge. This, as Siti acknowledged, helped her improve her performance significantly. She admitted that she initially knew only income tax rules, although her job required her to have familiarity with other types of tax as well. The support provided by Siti's supervisors for her to learn more encouraged her to explore from her colleagues issues where she felt her knowledge was lacking:

I was in Waskon I [Waskon was the name of a section in the DGT], I learnt from Waskon III, learnt from Waskon IV. For revenue optimisation I learnt from Waskon IV. To learn IT ... learning how to sort data, selecting which taxpayer to be visited effectively, I learnt from Waskon II. To analyse large taxpayers ... I learnt from Waskon III. (Siti)

Another indication of this support was provided by Romlah when she recalled the time when the pay rise was only promised, as the cash had not yet been paid to the staff. She witnessed that her supervisors were willing to go beyond what was considered normal

⁷¹¹ Christine Tjen and Chris Evans, 'Causes and Consequences of Corruption in Tax Administration: An Indonesian Case Study' (2017) 15(2) *eJournal of Tax Research* 243.

⁷¹² An example of a major corruption case involving tax officers after the Indonesian tax administration reform project was completed is the Gayus Tambunan case. A brief discussion on this case can be found in Tjen and Evans (2017).

activities. She said that her supervisors 'lobbied at lunches with ... key officials at the state budget office'. This was simply not possible in a non-modernised office.⁷¹³

E Concept 5: Positive Working Environment

Having supportive supervisors, a fair penalty system and a suitable reward scheme in turn facilitated a positive working environment. This encompassed concepts such as togetherness, a good teamwork, considerate closeness, and a sense of spirituality as well as religiosity. This section discusses these issues.

1 Togetherness

One of the key factors at pilot offices was that it was realised that the success of the project relied on the willingness of supervisors to 'open their doors' to everyone else at the office. This was difficult to achieve in non-modernised offices because they followed a system that relied on a hierarchical top-down approach, as commonly found in most Indonesian public administration offices.⁷¹⁴ Darus, when speaking about difficulties caused by this system, felt that there were barriers between staff and their superiors that needed to be dismantled. He said:

[W]e felt that to meet the head of a regional office was like [unthinkable] ... it used to be like that. So staff could only meet the head of section where he works. A head of section could only meet his direct supervisor; it was like that. And that was perhaps something that needed to be addressed. (Darus)

This type of relationship was apparently common in Indonesian public service bureaucracy because of the influence of Javanese culture.⁷¹⁵ In line with this culture, the supervisor–subordinate relationship was frequently seen as similar to a father–son relationship. As a consequence, a supervisor held a key position in the organisation as employees were often seen as mere tools who complied with their supervisor's direction. It also had the consequence that a supervisor provided certain protection—as a father does—for his subordinates. This caused a feeling of submissiveness driven by fear as an employee's work or

⁷¹³ Non-modernised office refers to a tax office that is not part of the pilot project. At the time of the pilot project, these offices comprised the majority of the tax office.

⁷¹⁴ Azhar Kasim, 'Bureaucratic Reform and Dynamic Governance for Combating Corruption: the Challenge for Indonesia' (2013) 20(1) *Bisnis & Birokrasi* 18.

⁷¹⁵ Dwiyanto and Kusumasari, above n 706.

behaviour was constantly assessed by their supervisor. Further, it resulted in a lack of upward feedback for decision makers.⁷¹⁶

This system apparently propagated barriers between supervisors and subordinates, creating a certain social distance between them.⁷¹⁷ Darus believed that such barriers made it difficult for him to promote a sense of togetherness and unity, which he saw was important to facilitate knowledge sharing and teamwork. Therefore, when he was assigned to one of the pilot offices, the first thing he did was try to minimise those barriers. The key to having a successful office, he believed, rested on the willingness of people to help one another and that everyone needed to feel that they were *in the same boat*. Thus, he asserted, there should be no barriers between staff and their supervisor:

I always said that in these jobs, if this language is to be used, I never set myself differently as a head of the office, or head of a section. These barriers needed to go. Or I said, what if we got rid of these barriers. Sometimes, they [the barriers] made us arrogant, they made us feel like a super person. But when they were open ... bam ... I mean not that we opened physically. It was deep in our hearts that we needed to open. That the success of our job depended solely on ourselves. Who are we? You, I and everyone else. Because I was nothing without all of you. That what was needed to be understood so that everyone felt that ... and if we talked about this, we always referred to the whole office. Just imagine if a mistake was made [at the office], then it was the mistake of the whole office. Hence, I said, we all had to be good people. I kept saying that ... Second, we tried to get rid of those barriers, so that general staff could come directly into my office. We even had sport games after Friday prayer, playing games together, badminton, all of those things ... [s]o that we were one. (Darus)

Another participant working at a regional tax office, Romlah, mentioned that her supervisor shared current events relating to the development of the pilot offices. This made her feel close with and involved by her supervisor:

In that common room we shared [what we knew], and being updated by our supervisor regarding the current development up to that point in time ... What made us happy was that every single development was informed to us. (Romlah)

⁷¹⁶ Kasim, above n 714.

⁷¹⁷ Sun et al, above n 299.

Siti noted that this situation occurred because she had a supportive supervisor so that 'between sections, we were quite close'. She, who at that time worked at an STO, remembered that barriers among divisions at her office were mostly non-existent:

I felt at home in all sections. I was everywhere ... meaning what? I needed everyone. It was beneficial for me and I felt it was just fair when ... like it was the job of the data processing to record tax returns. Then I said, 'Do you still have many tax returns to record?' I needed it too because I didn't want to see my computer screen blank because tax returns had not been input into the database. So when they distributed the tax returns [to be recorded] I volunteered and was given a full trolley ... There were many benefits for me. Like when those guys found particular data [concerning one of my taxpayers], I was personally summoned. Here I have data about your taxpayer. I once was able to obtain four billion [in tax payments] from an event just like this. (Siti)

The sense of togetherness was apparently due to the fact that at the time the pilot project was initiated, facilities were generally limited, causing a feeling that *they were in the same boat*. This can be seen for instance in an experience described by Romlah:

[T]here was a building but the facilities were very limited. There was a point at which we discussed recruiting cleaners, security officers and a secretary facing a round table as we did not have any other room except a room with a size of 4 x 4 [meters]. There, Echelon III, Echelon IV gathered [an echelon is a formal position who coordinates several subordinates in an Indonesian government organisation. At the DGT, an echelon ranges from Echelon IVa (lowest position, such as a head of a section) to Echelon Ia (highest position, such as the DGT Director General)] ... It was a bit sad as we had such a small space, but we were happy. This was because the atmosphere was very conducive [for comradery]. All parts were united; auditors, staff, our supervisors—there was virtually no gap. If there was an event, we discussed it sitting on the floor in the common room. Every month a meeting was held, there was a kind of ... sharing session ... what was fascinating for me was that there was no communication gap at all, no barriers between staff all the way up to the Echelon II [head of the regional office]. (Romlah)

This statement implies the importance of togetherness. In pilot offices, the barriers between staff and supervisors that were often experienced in non-modernised offices were removed. This strategy resulted in a sense of togetherness and at the same time promoted a

sense of unity, which was important to facilitate knowledge sharing (discussed in B.2) and teamwork (discussed in 2 below). Here, staff member were being offered the chance to feel that they were part of a bigger process. This provided signal that the DGT considered their staff member as an important part of the organisation and not simply as—in Ariely’s words—‘cogs in a wheel’.⁷¹⁸ However, the concept of togetherness described in this section must be viewed in the context of considerate closeness, as discussed below.

2 Teamwork

Previous sections outline how Indonesian bureaucracy—including at the tax office—used the hierarchical top-down approach, resulting in gaps between supervisors and subordinates. This was because there was a sense of reluctance as a result of the formal distance that needed to be maintained by subordinates from their supervisor. Therefore, in a non-modernised tax office it was rather uncommon for staff to directly express opinions to their supervisor. In section E.1 in this chapter, it is outlined that this situation was addressed at the pilot offices by promoting togetherness, which was considered important to encourage teamwork. Teamwork, a collaborative activity to attain a certain goal⁷¹⁹ with team members supporting one another,⁷²⁰ was known to be essential for improving productivity⁷²¹ and organisational performance.⁷²²

The usefulness of teamwork was recognised as essential in improving staff performance at the pilot offices. Siti, for example, recalled that teamwork was often relied on in her office as a way to improve overall performance:

Teamwork was not just what was written on banners. ... As an example, I was not good at property tax. To learn it, it was impossible for me ... I had to do tax revenue optimisation. I needed to know only the basics ... [Then I asked] ‘Sister, could you help

⁷¹⁸ Dan Ariely, *Payoff: The Hidden Logic That Shapes Our Motivations* (Simon & Schuster, Inc, 2016).

⁷¹⁹ Mai Ngoc Khuong and Bui Diem Tien, 'Factors Influencing Employee Loyalty Directly and Indirectly Through Job Satisfaction – A Study of Banking Sector in Ho Chi Minh City' (2013) 1(4) *International Journal of Current Research and Academic Review* 81.

⁷²⁰ Beatrice J Kalisch and Hyunhwa Lee, 'Nursing Teamwork, Staff Characteristics, Work Schedules, and Staffing' (2009) 34(4) *Health Care Management Review* 323.

⁷²¹ Jalal Hanaysha and Putri Rozita Tahir, 'Examining the Effects of Employee Empowerment, Teamwork, and Employee Training on Job Satisfaction' (2016) 219 *Procedia - Social and Behavioral Sciences* 272.

⁷²² Mafini Chendedzai and David R. I. Poole, 'The Relationship Between Employee Satisfaction and Organisational Performance: Evidence from a South African Government Department' (2013) 39(1) *South African Journal of Industrial Psychology* 1.

me with property tax? ... You have good knowledge of property tax, if my taxpayers [referring to taxpayers under her care] have issues with property tax, could you please handle it? Just to be sure that they will be in good hands. In exchange, do you have taxpayer data to be analysed? Financial statements for income tax, let me do the analysis. Under whose name was it? Hers [referring to her colleague's name]'. No problem, she helped me out [with property tax]. If she obtained tax revenue because of the analysis that I did for her, it would be under her name, and that was absolutely fine because if she did not help my taxpayers, my work would have been a mess. (Siti)

Teamwork did not have to be formal as it could simply involve helping each other out,⁷²³ as was evident when Siti helped her colleague analyse a taxpayer's financial statement. In doing so, she gained new knowledge as well. Siti noted that 'Most of my taxpayers were merchants, but this [taxpayer] was [providing] a service, so then I learnt that taxpayers in the service industry had a different nature'. It can also be seen here that what was regarded as teamwork at pilot offices did not necessarily have to involve a formal team, as evidenced in Siti's experience above. Siti felt that this informal approach was more productive for her as it allowed her to complete more tasks.

Thus, it can be seen here that simple teamwork could in fact help improve productivity⁷²⁴ and at the same time facilitate knowledge sharing. This is in line with Section B.2, although knowledge sharing, which took place informally in Siti's situation, was formalised as regular meetings to which external speakers were sometimes invited.

3 Considerate Closeness

As noted in E.1 above, togetherness was considered important in minimising the gap between supervisors and subordinates.⁷²⁵ It is interesting, however, that this sense of togetherness did not mean that staff could treat their supervisors as if they were friends. Darus, for example, noted that his subordinates were still required to approach him with a degree of respect. He said that 'it did not mean that they lost respect [for their supervisors], they still maintained it'. Similarly, Romlah recalled that although she felt welcomed by her supervisor, she knew that there were still limits that she needed to observe:

⁷²³ Kalisch and Lee, above n 720.

⁷²⁴ Hanaysha and Tahir, above n 721.

⁷²⁵ See discussion on page 168.

[Our] Supervisor was very open ... he was ready to accept us ... but then we also knew our position as subordinates, at the boundaries—at which point we could freely get our messages across and at which point we should not do that. (Romlah)

These participants identified that although they felt welcome—and it was intended to be that way—they felt that the freedom had to be embraced in a considerate manner. This concept of considerate closeness aligns with the top-down approach generally followed in Indonesian bureaucracy.⁷²⁶ Interestingly, Darus's account generally was in line with the notion of respect (*urmat, adji*), which is one of the fundamental value principles in Javanese culture—although it was known by the researcher that neither Darus nor Romlah were Javanese.⁷²⁷ This supports the idea that Indonesian bureaucracy was influenced by indigenous values, in which the paternalistic Javanese system has the strongest influence.⁷²⁸

In a Javanese community, the concept of hierarchical seniority is essential. Those who are considered older—not only in terms of age but also social status—are expected to *ngemong* (provide guidance) to those who are seen as younger.⁷²⁹ Older children are expected to maintain a respectful distance from their father and approach their father on a formal basis,⁷³⁰ unlike the equal relationship often observed in Western—particularly American—culture.⁷³¹ These children are required to speak to their father in a cautious fashion using a soft tone because fathers are considered distant figures and models for imitation. As such, their father needs to be treated in a respectful manner.⁷³² Fathers also have the role of *asah* (teaching and modelling) for their children.⁷³³ This results in a condition where children have a sense of submissiveness, acknowledging their father as a person of authority. When applied to a bureaucratic system, this approach results in a top-down system that lacks feedback flowing from subordinates to decision makers as there is a certain distance that separates the

⁷²⁶ Kasim, above n 714.

⁷²⁷ Hildred Geertz, *The Javanese Family: A Study of Kinship and Socialization* (Free Press of Glencoe, 1961).

⁷²⁸ Yudi Setianto, 'Birokrasi Tradisional di Jawa Dalam Perspektif Sejarah' (2010) 20(2) *Paramita: Historical Studies Journal* 169.

⁷²⁹ Mochammad Abdul Hakim et al, 'The Basis of Children's Trust Towards Their Parents In Java, Ngemong: Indigenous Psychological Analysis' (2012) 1(2) *International Journal of Research Studies in Psychology* 3.

⁷³⁰ Ratna Megawangi, Marian F. Zeitlin and Nancy D. Colletta, 'The Javanese Family' in Marian F. Zeitlin et al (eds), *Strengthening the Family: Implications for International Development* (United Nations University Press, 1995) 95.

⁷³¹ Shi Lizhi, 'Differences Between Chinese and American Family Values in Pushing Hands' (2015) 11(5) *Cross-Cultural Communication* 50.

⁷³² Geertz, above n 727.

⁷³³ Hakim et al, above n 729.

two.⁷³⁴ In a broader context, this is similar to the concept of social distance briefly touched on in Section E.1.⁷³⁵

In the case of the pilot project, although togetherness was seen as an important factor, it was also considered important to maintain a particular level of reserve to distance oneself from one's supervisor. This was referred to as *having respect* or *maintaining boundaries*. This reserve (retained perhaps for cultural reasons) was managed in such a way—predominantly by promoting togetherness—that feedback could still be exchanged bi-directionally between supervisors and subordinates. This resulted in a system that maintained a balance between having respect and retaining closeness at the same time.

4 Spirituality and Religiosity

Another important issue raised by participants in this research was spirituality—defined as a specific form of work feeling that energizes action⁷³⁶—and religiosity. It had been suggested that motivation to perform better in the job was an important factor in employees' general performance.⁷³⁷ Motivation could be achieved when a person viewed the work as a calling rather than a mere job,⁷³⁸ as this could increase a person's commitment towards the job.⁷³⁹ In this context, Karakas showed that spirituality was important in improving organisational performance: first by enhancing wellbeing and quality of life; second, through a sense of purpose and meaning; and last, by providing a sense of interconnectedness with the community.⁷⁴⁰

Spirituality, however, was different from religiosity. While spirituality was described as an inclusive and universal human feeling,⁷⁴¹ religiosity included having belief in God or a deity

⁷³⁴ Kasim, above n 714.

⁷³⁵ See discussion on page 168.

⁷³⁶ Gordon E. Dehler and M. Ann Welsh, 'Spirituality and Organizational Transformation: Implications for the New Management Paradigm' (1994) 9(6) *Journal of Managerial Psychology* 17.

⁷³⁷ Roberto Sarmiento, Jo Beale and Graeme Knowles, 'Determinants of Performance Amongst Shop-floor Employees: A Preliminary Investigation' (2007) 30(12) *Management Research News* 915.

⁷³⁸ Don Thompson and Cindy Miller-Perrin, 'Vocational Discernment and Action: An Exploratory Study of Male and Female University Professors' (2008) 50(1) *Review of Religious Research* 97.

⁷³⁹ Kelli Jo Schutte, 'Fostering An Integrated Life of Purpose in Christian Higher Education' (2008) 7(5) (2008/10/10) *Christian Higher Education* 414.

⁷⁴⁰ Fahri Karakas, 'Spirituality and Performance in Organizations: A Literature Review' (2010) 94(1) (June 01) *Journal of Business Ethics* 89.

⁷⁴¹ *Ibid.*

and participating in activities that belonged to a certain faith.⁷⁴² As workers generally brought their entire selves to work,⁷⁴³ people with a religious affiliation normally had their work behaviour affected by their religious preference, such as praying at work regularly.⁷⁴⁴ This, for instance, was acknowledged by Rosa who believed that completing her job professionally was part of her worship ritual or an account made by Siti, who saw religiosity as a missing factor when her performance was poor:

For me, tax revenue intensification and being able to add money to the state revenue account ... I considered them charity. Now, my intention to add a sum of IDR 1,000 to the state revenue account is like doing charity for 250 million Indonesians. My criticism of myself during my first year as an AR, where I could only obtain 75% [of the revenue target assigned to me] because when I worked ... official business ... I did anything ... I did those things by leaving God behind. I never asked God to come with me when I attended meetings ... I never had a chat with God, never asked for help, not one bit. I felt that I was smart, that I could do it. ... In my second year, I tried to ... 'Oh God, please be with me, I'm going to issue Tax Collection Letter' ... I still needed to collect several billion, but all I am doing now is issuing letters worth hundreds of thousands ... 'Give me your blessing' ... There was this particular letter, only worth IDR 100 thousand [of tax revenue]. Long story short, that particular taxpayer claimed a tax credit of only IDR 100 thousand but it resulted in a tax refund. Consequently, that taxpayer was subject to an audit under article 17 [all taxpayers claiming refunds in Indonesia were subject to audit, which needed to be completed within one year]. That audit resulted in an assessment of more than IDR 1 billion. The taxpayer came to me a few times trying to negotiate whether the assessment could be reduced [illegally]. Thank God we decided [not to take] that initiative. In the end, he paid the tax assessment [in full]. It was all because of only IDR 100 thousand. (Siti)

⁷⁴² D. A. Adeyemo and A. T. Adeleye, 'Emotional Intelligence, Religiosity and Self-Efficacy as Predictors of Psychological Well-Being among Secondary School Adolescents in Ogbomoso, Nigeria' (2008) 4(1) *Europe's Journal of Psychology*.

⁷⁴³ Monty L Lynn, Michael J Naughton and Steve VanderVeen, 'Connecting Religion and Work: Patterns and Influences of Work-Faith Integration' (2011) 64(5) (May 1, 2011) *Human Relations* 675.

⁷⁴⁴ Filotheos Ntalianis and Wendy Darr, 'The Influence of Religiosity and Work Status on Psychological Contracts' (2005) 13(1) *International Journal of Organizational Analysis* 89.

In this context, therefore, it can be understood that the participant's faith had led her to a sense of pride in her work as she saw her job as a way to do the teachings of her religion. This is illustrated in the situation where she would not mind paying work expenses using her own personal money without being reimbursed:

At that time, there was no SOP. This meant inputting tax returns [into the database] ... printing out tax assessment letters and tax collection letters [manually] ... one phone line for 40 people, so it was often that [I] used [my] personal phone credit. But this was no problem. ... [In a] month I could pay phone credit of a hundred thousand to five hundred thousand [in Indonesian currency]. Facilities were not perfect, but [I] enjoyed the job very much. (Siti)

It has to be noted that this quote referred to the time before the pay rise had been provided. When Siti was asked if her willingness to use her own personal money related to that period, she admitted that it was the case:

Researcher : When you paid the phone credit personally, was it before you received what was promised [the pay rise]?

Participant : Yes, not yet.

Researcher : And yet you did not mind?

Participant : Not a problem at all. (Siti)

The Islamic tradition, the religion embraced by Rosa and Siti, praised hard work and emphasised cooperation. Consultation was essential to avoid mistakes and alleviate problems.⁷⁴⁵ The value of particular work was judged based on the intention of doing it. As such, the Islamic work ethic was found to positively affect organisational commitment⁷⁴⁶ through identification (pride in the organisation), loyalty (sense of belongingness) and involvement (absorbing one's role).⁷⁴⁷ Hence, participants' religiosity may have contributed to their stronger commitment towards their job at pilot offices.

⁷⁴⁵ Darwish A. Yousef, 'Organizational Commitment as a Mediator of the Relationship between Islamic Work Ethic and Attitudes toward Organizational Change' (2000) 53(4) (April 1, 2000) *Human Relations* 513.

⁷⁴⁶ Shahrul Nizam bin Salahudin et al, 'The Effect of Islamic Work Ethics on Organizational Commitment' (2016) 35 (2016/01/01) *Procedia Economics and Finance* 582.

⁷⁴⁷ John Cook and Toby Wall, 'New Work Attitude Measures of Trust, Organizational Commitment and Personal Need Non-Fulfillment' (1980) 53(1) *Journal of Occupational Psychology* 39.

F Concept 6: External Pressure

The next concept raised by the participants was the importance of external pressure. While concepts 1–5 were mainly derived from the officials in the pilot tax offices, concept 6 worked at the other end of the continuum. Without the external pressure from the IMF, the pilot project might not have proceeded well. This concept can be traced back to the Lol sent to the IMF in which the Indonesian government outlined the importance of tax administration reform.⁷⁴⁸ As a starting point, the Indonesian government committed to establishing an LTO in 2002.⁷⁴⁹ This Lol contained details of milestones to be closely monitored. Darus, who was a member of the team in charge of the LTO's formation, remembered that sometimes the IMF's presence meant bypassing hierarchical procedures:

If we needed to draft a Ministry of Finance regulation, for instance, on organisational matters, then it was drafted, written, not through the Director General—that mechanism was not used—[instead] we directly went to the Minister of Finance. So it was a blessing [in this regard]. However, sometimes we had disagreements [with the IMF] about certain things [that they demanded] that were just not implementable [in Indonesia]. (Darus)

Interestingly, he also recalled that he had made enemies during the pilot project. He mentioned that there were attempts to prevent a certain taxpayer from being listed as one of the taxpayers-to-be managed by a pilot office:

It [Darus referred to the pilot project he was heading] made us have many enemies. First, our own colleagues ... [who had] the expectation ... to go back [to the corruptive behaviour] ... Second, from the taxpayer's side. Not everyone was happy [about being included in the pilot office]. There was someone, [who tried] to make a deal [so that a particular company was not included in the pilot project] And ... it [not to include a certain taxpayer in the pilot office] had become a new business. (Darus)

In this context, according to Darus the IMF provided a degree of protection so that ' ... people did not even dare to interfere [with the reform project] ... including those from within'.

It can be seen here that the IMF's presence was important to speed up the reform and to provide a degree of protection to ensure the continuity of the reform project. Thus, having

⁷⁴⁸ Gol, above n 19.

⁷⁴⁹ Gol, above n 390.

the protection from an international agency such as the IMF is important for a reform project to succeed, particularly in a developing country like Indonesia.

III THEORETICAL CONSTRUCT

This section integrates key concepts outlined in the preceding Section II above in the core theme 'the soul of reform'.

A Non-Operative Militancy

The reform took place at a time when the Indonesian economy was in recession and the tax office constituted a corrupt environment. At that time, if one was not part of the (corrupt) system, one would be singled out. This often puts people in a *politically difficult* situation. Jono, a participant who later held a top position at the DGT, admitted that if he was not part of that corrupt system at the tax office, he quite possibly would not have become what he is today.

Nonetheless, some were uncomfortable with this corrupt environment and wished not to be part of it but because it was politically difficult to do otherwise, they remained silent. They had what is referred to here as 'non-operative militancy': staff having the original intention to change but choosing not to do so. The recruitment described in Section II.A was aimed at recruiting tax officials with this attribute.⁷⁵⁰

B Internal Factors

As mentioned, the recruitment resulted in staff who were willing to change. A participant reflected that his staff were already skilled so he only needed to remind them that they basically were doing the same thing in a different way. His encounters with his staff were mostly not about taxation, but instead were predominantly about listening to their concerns, giving encouragement and building teamwork.

In this case, it was critical for supervisors to be *caring* and to set a *good example*. Darus admitted that providing an example and being true to his word were his ways of upholding integrity. A caring and exemplary supervisor was essential in forming a positive working environment, a situation that fostered innovation, togetherness and teamwork. This was made possible when the supervisors in the pilot project were willing to remove barriers often seen in traditional bureaucracy in Indonesia. This instilled cohesiveness as a result of teamwork and

⁷⁵⁰ See discussion on page 152.

togetherness, which was important for improving knowledge exchange and innovation. These factors, collectively named 'internal factors', improved staff morale and performance.

C External Factor

Also important in this case was the intervention of the IMF. This intervention acted as a catalyst (facilitating, and providing time and opportunity) for the transformation to take place. This further enhanced performance of the project. However, without the self-awareness to change (referred to as 'non-operative militancy' above), the IMF's intervention would not have been sufficient.

D Core Theme: The Soul of Reform

Generally, people carry out a certain behaviour if they are confident that the behaviour will result in a valuable outcome (attitude); other people they consider important will likely approve the behaviour (subjective norm); and they are capable (perceived behavioural control) and have the necessary resources (actual behavioural control) to perform the behaviour (Figure V.2).⁷⁵¹

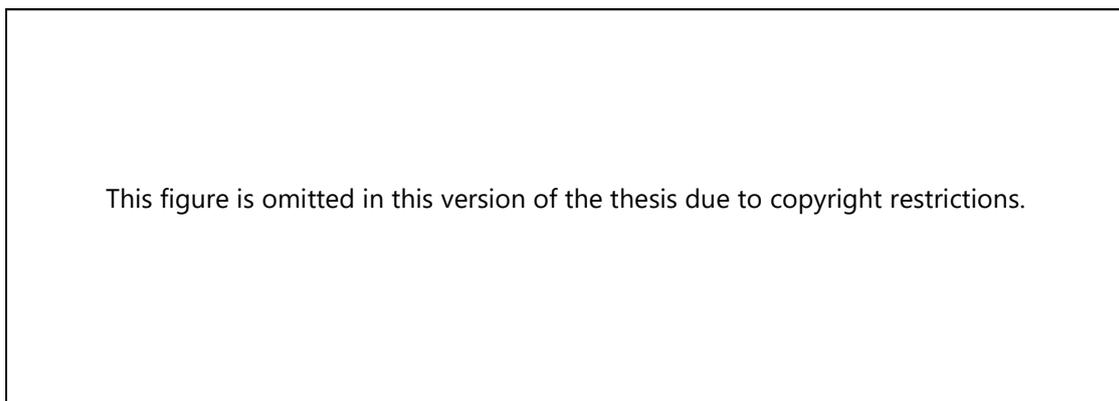


Figure V.2 Theory of Planned Behaviour⁷⁵²

The common practice at the DGT when the pilot project was initiated made it difficult for those wishing to abstain from corrupt practices. There was pressure to engage in corrupt practices, particularly on staff in technical units. Further, there was fear of undesirable consequences such as being transferred to a remote location or being singled out, if one opposed that pressure (Figure V.3).⁷⁵³

⁷⁵¹ Icek Ajzen, 'From Intentions to Actions: A Theory of Planned Behavior' in Julius Kuhl and Jürgen Beckmann (eds), *Action Control: From Cognition to Behavior* (Springer Berlin Heidelberg, 1985) 11.

⁷⁵² Icek Ajzen, *TPB Diagram* <<http://people.umass.edu/aizen/tpb.diag.html#null-link>>.

⁷⁵³ Widoyoko, above n 680.

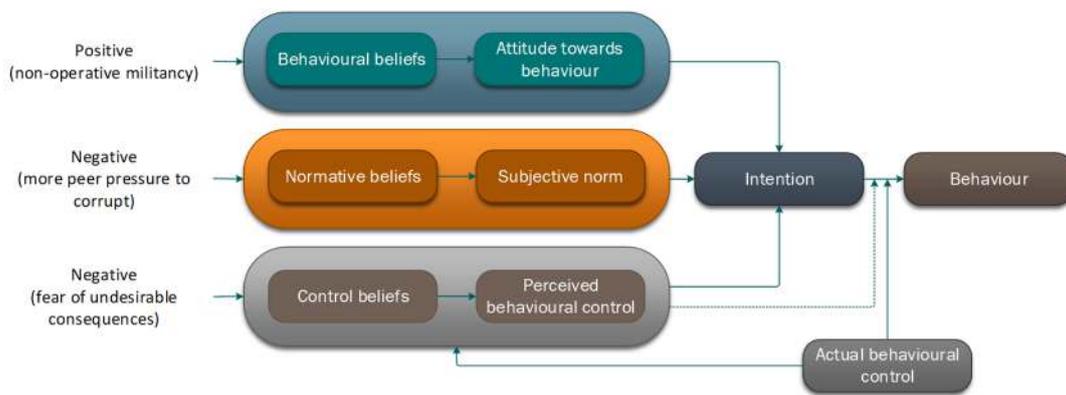


Figure V.3 Negative effects on subjective norm and perceived behavioural control

The pilot project offered a different environment. Officials in that project felt less pressure to engage in corruption. This improved their belief that change was possible. External intervention from the IMF along with positive internal factors—such as a supportive supervisor, a better reward and punishment system and a positive working environment—provided resources for change to take place (Figure V.4). These key factors are collectively referred to as ‘the soul of reform’ (Appendix I).⁷⁵⁴ The next section provides a summary of key findings and concludes this chapter.

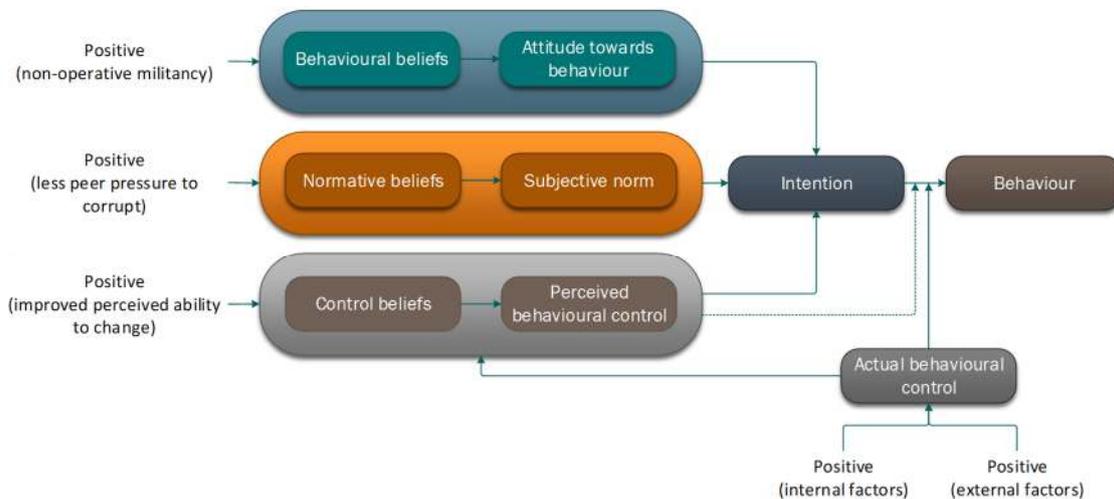


Figure V.4 Positive effects on subjective norm and behavioural control

⁷⁵⁴ This terminology is used by Darus during one of the interviews in this study in his critique towards the reform that started in 2002. Darus believed that while that reform was able to establish a new type of tax office based on the administration system derived from the pilot project, it did not, however, have the key factor that he witnessed during the pilot project. He called this missing factor ‘the soul of reform’.

IV CONCLUSION

This research set out to address concerns that, despite an increasing rate of GDP and tax administration modernisation, Indonesia's tax-to-GDP ratio in 2007 to 2015 had been decreasing. To examine the reasons for this, the research began by examining the Indonesian taxation system reform pilot project. Outcomes from this research are of interest to the Indonesian government and others because, first, the administration principles currently applied in the DGT were derived from that project, and second, that project resulted in increasing tax revenue in a less favourable environment in terms of corruption and general economic conditions.

This chapter has addressed the first research sub-question 1, being the aspects of tax administration that were essential in the success of the pilot offices. The findings presented in this chapter reveal that one of the important aspects of the pilot project was its ability to recruit staff who were committed to change in the organisation. They were then exposed to internal factors that were conducive to improving their work quality. Unfortunately, the project was also seen as a 'thorn in the side' and often subject to threats, either internally or externally. In this sense, the IMF provided a degree of protection to ensure the continuity of the project.

The main findings from this research indicate that for a reform to succeed, both the *intention to change* and positive external and internal factors are essential. External factors, however, act only as catalysts, ensuring the change process continues. Thus, without the intention to change and positive internal factors, external pressure may not have a significant effect. These findings are used in Chapter VI as a starting point for examining how current tax administration is managed.

CHAPTER VI

MODEL DEVELOPMENT⁷⁵⁵

I INTRODUCTION

As outlined in Chapter IV, this thesis adopts a two-step strategy to address the research questions presented in Chapter I (see Chapter I, Section III). A summary of findings of stage 1 of this study is presented in Chapter V. Stage 2 then attempts to transfer these findings to the current situation at the DGT. This stage is aimed at identifying lessons learnt using concepts from stage 1 as a starting point and using these lessons to provide feedback regarding current tax administration (see Figure IV.6 in Chapter IV, II.C.1).

For this purpose, 17 in-depth interviews were conducted with 12 participants who had an ongoing interaction with the DGT, either as tax officers, trainers or taxpayers (see Table IV.5 in Chapter IV, Section II.C.3). This chapter provides a summary of the concepts that emerge from this series of interviews, which generally address sub question 2 (identifying the differences between the tax administration applied at the pilot offices and the tax administration currently practised, why do these differences occur and how the current administration can be improved) and sub question 3 (evaluation of how the DGT should be managed based on the views of tax officials). It presents an analytical perspective on certain factors that might undermine the performance of current tax administration in Indonesia. These factors are presented as two broad categories: internal and external gaps (Table V.1).

These factors were constructed through analysis of data that were co-created by the researcher and the participants. They provide an experiential view of the research participants regarding how tax administration in Indonesia is currently managed. They also provide an abstract and conceptual view of the participants' experiences. However, as they are developed based on the participants' accounts, they are specific to the participants in this research only. It is also important to note that not all participants experienced all categories outlined in this

⁷⁵⁵ This chapter draws heavily from Prasetyo, Kristian Agung, 'Developing a Model for Enhancing the Indonesian Tax Administration System' (Paper presented at the 30th Australasian Tax Teachers Association Conference, Melbourne, 17-19 January 2018) <https://www.monash.edu/_data/assets/pdf_file/0007/1256947/A-Prasetyo-ATTA2018.pdf>.

chapter. Further, there was variation across participants in the ways the factors were experienced.

Although these factors intersect and overlap one another, in this chapter, they are presented and explained in separate sections. Participants' quotes are used in these sections to illustrate that the concepts are grounded in the data. Chapter VI concludes with a discussion of how these categories relate to one another.

Table VI.1 Analytical categories: stage 2

Category	Description
Category 1: Internal gaps	
Expectation Gap A: staff expectations	
Gap 1	The discrepancy between the expectations of staff about their supervisor's behaviour and the behaviour that they actually observe on a daily basis
Gap 2	The DGT's difficulties in delivering supervisors whose abilities meet staff expectations
Gap 3	Whether behaviour that is expected to feature in a supervisor in fact can be seen in reality
Expectation Gap B: supervisor expectations	
Gap 4	Supervisor's expectations about their staff's actual behaviour
Communication gap	
Gap 5	How the DGT communicates with its employees
Category II: External gap	
Gap 6	The discrepancy between taxpayer expectations about DGT performance and the performance that they observed

II CATEGORY I: INTERNAL GAPS

Being a leader means setting a good example. (Darus)

The *gaps* in essence cover several shortcomings felt and described by the participants in this research in their daily activities relating to the tax office. This category constitutes the main finding that encompasses many other categories arising from the participants' accounts. Further, these gaps lay the foundation for explaining the participants' experiences. They present shortcomings that were felt, but nevertheless left unsaid, by tax officials, both from the staff and supervisor side, and taxpayers. As such, the gaps cover multiple sides of the story.

Concepts covered in this category may affect staff performance and in turn, potentially undermine overall tax office performance. As such, they may become hurdles in the DGT's attempt to optimise revenue collection in the future.

A Expectation Gaps

1 Expectation Gap A (Staff Expectations): Gap 1–Gap 3

(a) Staff Expectations—Supervisor Observed Behaviour: Gap 1

In an ideal working environment, staff would see their expectations about their supervisor's behaviour being met. As a result, they could clearly see that what they desire for their supervisor's behaviour is there. For example, staff might want to see that their supervisors are true to their word. As people tend to follow the person in charge, then it is important for a leader to set examples for the rest of the organisation and—in Pettinger's words—'don't ask others to do what you wouldn't do yourself'.⁷⁵⁶ In other words, a leader needs to be consistent with their claims. For example, Darus, a former head of a tax office in the pilot project described in Chapter V said that during his time in the pilot project, it was important for him to ensure his words were consistent with his actions:

So, it is walking the talk [that matters], simply doing what was said. Just like us, you come early in the morning. But he [the supervisor] comes late. As simple as that. I always tell my kids and grandchildren, 'Eh you have to pray. Come on, let's pray [together]'. Because I am a Muslim. If the father or the person who says that [to do the prayer] he does not pray, how can he expect his kids to pray ... it is that simple. (Darus)

When he was asked about his strategy for maintaining the spirit of his staff, he mentioned that setting a good example is of paramount importance: 'Being a leader means setting a good example'. He added that:

[I]t is true what they say ... walking the talk ... if a supervisor does not tell their subordinates to do bad things, then obviously they would not do such things. (Darus)

Another important feature highlighted by the participants and discussed at length in Chapter V, is *caring*. This was, for example, highlighted by Romlah when she witnessed her supervisors lobbying certain key officials to grant a pay rise to those working in pilot offices: '[T]hey lobbied during lunches with certain key officials at the state budget office'.

These accounts provide examples of key characteristics of a supervisor in pilot offices: being caring, able to set a good example and true to their word—therefore, trustworthy. Finding these characteristics in the current situation at the tax office, however, might be a challenge. This can be seen, for example, in the difficulty faced by staff members when

⁷⁵⁶ Tejvan Pettinger, *What Would Keynes Do?: How the Greatest Economists Would Solve Your Everyday Problems* (Cassell, 2018).

deciding if they could trust that their supervisor was acting in good faith, as explained by Rosa and Uti. In an email conversation, Rosa, a staff member at the DGT head office at the time of the interview, emphasised the importance of trust. She asserted that it was imperative for staff members to be able to trust that their supervisor had good intentions and that those staff knew that 'they were not simply being used'. Without this, good communication, which Rosa considered essential for maintaining a professional subordinate–supervisor partnership, may not exist:

Staff who do not trust that their supervisor has good intentions can cause hurdles in their communication. And a professional partnership requires good communication.
(Rosa)

Such trust can potentially be difficult to obtain. In this respect, Uti, an appeal officer at the DGT, provided an example based on her experience. Part of Uti's job was to represent the DGT in court in disputes with taxpayers. She normally worked in a team that usually consisted of two officers. It was rare for her supervisor to accompany the team to court. However, Uti was surprised when one day her supervisor came with her team to one of the court proceedings, although the supervisor stayed in the lobby and did not come into the courtroom. She later discovered that on that day, one of the higher echelons at the DGT came to visit the court and her supervisor was there simply to welcome that person. The supervisor left the court as soon as the visit was finished. This fact led her to believe that she might need to question her supervisor's real intentions as they were not really interested in the court proceedings as Uti believed they should be.

In the context of caring, a *meme* posted by a member of the Penilai V Malang WhatsApp group described the situation she faced at her office in one of the DGT branches in Eastern Java (Figure VI.1, identifications removed). The *meme* illustrated a clean bird that perched on the top of a wooden branch. Below that branch, there were three other branches one below another with more birds on each branch. The bird on the higher level of a branch dropped its dropping to the birds below it. As such, the lower the branch was, the dirtier the birds on that branch were. The birds that perched on the lowest level of the branch were in the worst condition as they were fully covered with bird dropping.

That WhatsApp group member used this *meme* to illustrate the condition in her office where she believed that her superiors were sitting in a comfortable situation at the time when most of their subordinates, like her, suffered more due to the ignorance of those supervisors.

Interestingly, another member of that group reminded her immediately not to post similar *meme* in the future for fear of being detected by the Kitsda (this acronym stands for Kepatuhan Internal dan Sumber Daya Aparatur, a directorate at the DGT that investigates professional misconducts within the tax office).⁷⁵⁷



Figure VI.1 *Meme* posted in the WhatsApp group

In a similar fashion, Uti provided more examples of instances where she began to doubt that some of the supervisors in her office were caring. She described a case where she helped her colleagues on some occasions. One case related to the appeal process often faced by her office in relation to taxpayers with an integrated business model in palm oil plantations. This business model basically involved a series of internal transactions by the taxpayer's entity. Some of the transactions attracted VAT while others did not. Uti described that because of the complexities of the transactions and that the tax rules in this instance were unclear, it was quite often the case that the tax office lost against such taxpayers in court disputes. Uti's office was tasked with, among other things, making appeals to the High Court, including in these cases:

⁷⁵⁷ The person identified in the second post below the meme in Figure VI.1 as '... pak ...' (identification removed) was the director of Kitsda at the time when this thesis was written. *Pak* in Indonesian means Mr in English.

Like at that time about integrated business often seen in the palm oil industry ... plenty of them in my office ... over and over again ... but our regulation is actually weak [about this matter] ... then in the end the BoD [Board of Directors] [held a meeting] ... at which it was decided that for such cases [if the DGT lost in court] it was not necessary to appeal to the High Court. Then the guys [Uti referred to her colleagues] understood that in such cases, appeal was not necessary because of the decision made at that meeting. And then there was my colleague, she was going to appeal one of those cases. She asked if appeal was really not necessary as she did not see the actual result of the BoD meeting; she needed to see the printed version of the minutes [for her own legal protection]. 'Well, get a copy then' [her supervisor told her]. The problem was, we could not just ask for them. I mean we were mere staff' we did not know if the BoD meeting really took place [the level was too high for us], we did not know who attended the meeting [therefore we did not know who to ask], but then suddenly we were told to get a copy of the minutes of that meeting. It just did not make any sense. If they [her colleague supervisors] were not able to help [with that BoD meeting] ... just point us to the right person ... lead us there. (Uti)

Then Uti described a situation faced by one of her colleagues, where her colleague's supervisor did not do much to help. The event involved a certain tax ruling that had already been resolved by the corresponding body, which was the Peraturan Perpajakan (Tax Ruling) II Directorate, but the ruling was not made public yet. Uti's colleague tried to obtain a copy of that ruling through her supervisor, but for unknown reason her supervisor did not do much to help her. This case according to Uti can be solved simply by '... pick up the phone, [and ask] who is the person in charge for this case.' This was what Uti did to help her colleague through Uti's friend in the Peraturan Perpajakan II directorate.

Uti then continued that at the time, she had several colleagues with good skills who could basically 'run by themselves' if there was only someone who would make them do so. What was lacking at the time was such a person:

I say there is no ... [person] who inspires us ... we are close to not having a role model. A perfect role [model] ... (Uti)

Therefore, Uti was glad when she had a director who to some extent she could see as a role model:

[S]he ... cares about our work. If she plans to go as an LO [a director is sometimes assigned to be the LO for a certain regional tax office] or other stuff, unless it is really urgent where she must go, if she plans to attend an event, like the LO stuff that is under her authority, she always asks [us], because there is always a due date in my office, ... 'I'm planning to be out of the office from this date to this date, do you have many due dates [and therefore you need me here]?' 'Please don't go', [as] we have plenty cases due, then she does not go. (Uti)

This quote describes a characteristic that Uti saw as important in a supervisor. Here, she saw that her supervisor cared about the burden carried by her subordinates by choosing to stay at the office rather than taking the opportunity to do a possibly more exciting job as an LO outside her normal duties at the DGT headquarters. Uti continued that what she saw in her director differed from what she was told by one of the staffs at the human resource department where some of the directors were said to be 'like ghosts'. This refers to the fact that they often came and went without anyone noticing. This could be problematic for their staff members, who often expected their leader to be accessible, particularly when they needed help if undesirable situations had arisen.⁷⁵⁸

We can see from these accounts that these participants were describing instances of Gap 1 where they thought there were certain aspects that should inherently be found in a supervisor, but were not there. The participants believed that they could not see characteristics that they thought should have been possessed by their supervisors. These provide an indication of a gap between what was expected by the participants regarding their supervisor's behaviour and what they saw in reality. Ideally, supervisors need to show that their words are consistent with their deeds,⁷⁵⁹ something that Darus referred to as 'walking the talk' and 'setting a good example'. This is even more important given that Indonesian bureaucracy generally follows a top-down approach, much like a father-son relationship.⁷⁶⁰ Hence, a role model, as noted by Uti, is essential as leaders must set an example.^{761, 762} Gap 1 may also make

⁷⁵⁸ Larry Bossidy, 'What Your Leader Expects of You' (2007) 85(4) *Harvard Business Review* 58.

⁷⁵⁹ James M. Kouzes and Barry Z. Posner, *The Leadership Challenge: How to Make Extraordinary Things Happen in Organizations* (Wiley, 2017).

⁷⁶⁰ Dwiyanto and Kusumasari, above n 706.

⁷⁶¹ Kouzes and Posner, above n 759.

⁷⁶² Pettinger, above n 756.

it more difficult to establish trust between staff and their supervisors. It is predicted that the widening of Gap 1 may contribute to an increase in expectation Gap A. This in turn, may limit staff performance as they are reluctant to *go the extra mile* voluntarily.

As organisations require a strong leader to succeed,⁷⁶³ Gap 1 in the Indonesian context could be reduced effectively by using a top-down approach, following the principle mostly adhered to in the Indonesian bureaucratic system, that of a 'father-child' relationship.⁷⁶⁴ This was highlighted by Darus when he described his time at one of the pilot offices. He said that he was not concerned much about his staff members' skills in taxation; he was more worried about his staff's intention to stay on the correct path and avoid corruption (i.e., *istiqomah*).⁷⁶⁵

It means how can we remain *istiqomah*? Because if it is about your normal job [on tax matters] I must say that you guys are the experts ... The problem now is not about that. [It is about] when you put your signature; at the time when I put my initial; when the worksheet [in an audit] is about to be released—that is the precise time when [we question] ... are we really sure? Are we genuinely willing to release [to the taxpayer] the correct amount [of tax payable]? (Darus)

Darus then continued that the best way to do this was by setting a good example. He believed that 'walking the talk', being true to his own word and using a proper 'tone at the top' were essential. This walking-the-talk strategy is known to be more effective in influencing others than the use of coercion:⁷⁶⁶ 'Tone at the top, walk the talk. That's it' (Darus).

What Darus did in this context is important. This is because at the time when the pilot offices were established, corruption at the DGT, as noted in Chapter V, was rampant and employee fraud often took place in an organisation with a poor tone at the top and weak internal controls.⁷⁶⁷ Here, Darus chose to use the strategy of making himself a model for his subordinates. By holding themselves up as an example, as Kouzes and Posner put it, a leader can gain commitment from staff members and at the same time, push them to achieve the

⁷⁶³ Theodore Levitt, 'Marketing Myopia' (2004) 82(7/8) *Harvard Business Review* 138.

⁷⁶⁴ Dwiyanto and Kusumasari, above n 706.

⁷⁶⁵ In the Islamic tradition, *istiqomah* means treading the straight path as set in the Islamic teachings. This includes performing all acts of obedience and abstaining from all prohibitions (such as corruption, which can be considered as theft).

⁷⁶⁶ Robert E. Quinn, Gretchen M. Spreitzer and Matthew V. Brown, 'Changing Others through Changing Ourselves' (2000) 9(2) *Journal of Management Inquiry* 147.

⁷⁶⁷ Peter Goldmann, *Financial Services Anti-fraud Risk and Control Workbook* (Wiley, 2010).

highest standards.⁷⁶⁸ In this sense, Treviño and Brown suggest that leaders can influence their staff members' behaviour by showing high ethical conduct⁷⁶⁹ as people tend to reciprocate the behaviour of those who benefit them, as shown by social exchange theory.⁷⁷⁰ They further contend that a leader who is seen as trustworthy and treats their staff members fairly and considerately, will encourage positive behaviour as their employees will emulate them.

This emulation takes place through a social exchange relationship. In such a relationship, the obligations of the parties involved are enforced voluntarily because of the trustworthiness of those parties and the sense of justice in the exchange. This exchange begins when leaders treat their employees well. This results in a sense of obligation to reciprocate, particularly through good citizenship, which is considered important in lubricating 'the social machinery of the organisation' but cannot be prescribed in advance⁷⁷¹ and therefore is outside the normal role expected to be performed by a staff member.⁷⁷²

The concept of organisational citizenship behaviour is related to organisational justice. Moorman, Blakey and Niehoff, for example, show that citizen behaviour is affected by procedural justice.⁷⁷³ This concept of organisational justice basically relates to a perception of justice with respect to how a certain outcome is distributed, a concept referred to by Kim and Mauborgne as 'fair process'.⁷⁷⁴ These authors contend that fair process leads to trust and commitment that eventually results in an employee's voluntary cooperation with the organisation. This improves an employee's performance beyond their official duties as they are willing to share their skills and apply creativity. An example of this can be seen in the concept of innovation at the pilot offices highlighted in Chapter V.

⁷⁶⁸ Kouzes and Posner, above n 759.

⁷⁶⁹ Linda Klebe Treviño and Michael E Brown, 'The Role of Leaders in Influencing Unethical Behavior in the Workplace' in Roland E. Kidwell Jr. and Christopher L. Martin (eds), *Managing Organizational Deviance* (SAGE Publications, 2005) 69.

⁷⁷⁰ Peter M. Blau, *Exchange and Power in Social Life* (J. Wiley, 1964).

⁷⁷¹ Thomas S. Bateman and Dennis W. Organ, 'Job Satisfaction and the Good Soldier: The Relationship between Affect and Employee "Citizenship"' (1983) 26(4) *The Academy of Management Journal* 587.

⁷⁷² Biswajeet Tattanayak, Rajnish Kumar Misra and Phalgu Naranjana, 'Organisational Citizenship Behaviour: A Conceptual Framework and Scale Development' (2003) 39(2) *Indian Journal of Industrial Relations* 194.

⁷⁷³ Robert H. Moorman, Gerald L. Blakely and Brian P. Niehoff, 'Does Perceived Organizational Support Mediate the Relationship between Procedural Justice and Organizational Citizenship Behavior?' (1998) 41(3) *The Academy of Management Journal* 351.

⁷⁷⁴ W. Chan Kim and Renée A. Mauborgne, 'Fair Process: Managing in the Knowledge Economy' in *HBR's 10 Must Reads on Managing People* (Harvard Business Review Press, 2011) 111.

Perceived fair treatment will result in the strengthening of the citizenship behaviour of an employee.⁷⁷⁵ Thus, employees who perceive that they have been treated fairly are more likely to show good citizenship behaviour.⁷⁷⁶ In contrast, perception of unfair treatment will likely limit the commitment to extra-role behaviour⁷⁷⁷ and may even lead to retaliation such as misuse of company's resources, lies or abuse of sick leave entitlements.⁷⁷⁸

Similarly, in a discussion on the concept of authentic leadership, Luthans and Avolio maintain that a leader's authentic values, beliefs and behaviours act as a model for their associates' development.⁷⁷⁹ Here, Avolio and Gardner argue that authentic leaders normally lead by example, for instance by demonstrating confidence, optimism and consistency between words and deeds.⁷⁸⁰ They further maintain that such positive emotion is infectious, in the sense that it spreads across organisational members. These leaders can create a leader-follower relationship characterised by respect and trust. This type of relationship inspires followers to take on their leader's positive values. This behaviour then cascades from the top of the organisation down to the newest staff members.⁷⁸¹ As such, the process of influencing staff members is not a result of active intervention; rather, it is simply a result of leaders being role models, which presumably is currently lacking at the DGT, as indicated by Uti.

This is in contrast with a transactional exchange relationship. Under this relationship, according to Blau, social exchange is motivated by the benefit that one can expect to obtain from others.⁷⁸² Hence, the exchange creates an obligation on the other party to reciprocate. This obligation can be discharged by providing, in return, a certain benefit to the first party. This benefit can include financial benefit, social approval or even an expression of gratitude from the other party. A failure to return the favour may result in a certain penalty, such as

⁷⁷⁵ Treviño and Brown, above n 769.

⁷⁷⁶ Robert H. Moorman, 'Relationship Between Organizational Justice and Organizational Citizenship Behaviors: Do Fairness Perceptions Influence Employee Citizenship?' (1991) 76(6) *Journal of Applied Psychology* 845.

⁷⁷⁷ Hooi Lai Wan, *Organisational Justice and Citizenship Behaviour in Malaysia*, Governance and Citizenship in Asia (Springer, 1st ed, 2016).

⁷⁷⁸ Treviño and Brown, above n 769.

⁷⁷⁹ Fred Luthans and Bruce J. Avolio, 'Authentic Leadership Development' in Kim S. Cameron, Jane E. Dutton and Robert E. Quinn (eds), *Positive Organizational Scholarship: Foundations of a New Discipline* (Berrett-Koehler, 1st ed, 2003) 241.

⁷⁸⁰ Bruce J. Avolio and William L. Gardner, 'Authentic Leadership Development: Getting to the Root of Positive Forms of Leadership' (2005) 16(3) *The Leadership Quarterly* 315.

⁷⁸¹ Luthans and Avolio, above n 779.

⁷⁸² Blau, above n 770.

reduced trust, a damaged reputation or a sense of guilt. This set of penalties puts more pressure on a person to discharge the obligations arising from the social exchange. Such a penalty in a working environment normally is enforced through the coercive power of a leader. This usually results in a situation where employees are committed only to their obligations and tend to be unwilling to do more.

These accounts provide both theoretical and empirical support that the efforts to close Gap 1 should start from the top. This could be initiated, for example, by the willingness of a supervisor to facilitate togetherness, as seen in the pilot offices and extensively discussed in Chapter V. Togetherness can be promoted by limiting social barriers that separate supervisors from their subordinates, as discussed in the previous chapter. This initiative would improve communication and promote trust between the two parties. Promoting trust with employees is important as commitment to the organisation's goals can still be preserved during downturns if trust has been established with employees.⁷⁸³ Further, when trust is established between subordinates and their supervisor, it is more likely that the subordinates will be willing to engage in extra-role activities as they know that they will not be taken advantage of.⁷⁸⁴ Again, this shows that trust is important in promoting good citizenship behaviour. As noted by Fehr and Gächter, if supervisors can offer such empathy and thoughtfulness to their staff member, it is likely that those staff member respond similarly.⁷⁸⁵ They call this concept reciprocity, which generally means that a person may respond to friendly or hostile actions even without any material gain. Here, Fehr and Gächter reports that generally people are willing to do extra effort beyond what is normally expected in response to generous job offers. By contrast, negative actions from supervisors will likely attract ill feeling from their staff member in return. Fehr and Gächter refer to this as negative reciprocity, which normally signifies retaliatory actions.

In the case described by Uti above, if trust had been established, Uti's colleague could have confidently mentioned to her supervisor her expectation that the supervisor should help her obtain the BoD meeting minutes, which she considered essential for doing her job. If this

⁷⁸³ Rajnandini Pillai, Chester A. Schriesheim and Eric S. Williams, 'Fairness Perceptions and Trust as Mediators for Transformational and Transactional Leadership: A Two-Sample Study' (1999) 25(6) *Journal of Management* 897.

⁷⁸⁴ Ibid.

⁷⁸⁵ Ernst Fehr and Simon Gächter, 'Fairness and Retaliation: The Economics of Reciprocity' (2000) 14(3) *Journal of Economic Perspectives* 159.

expectation had been fulfilled, it is possible that this would have resulted in a situation where Uti's colleague felt obliged to return the favour made by her supervisor, thereby creating a further chain of positive behaviour. In Uti's situation, this process did not occur as Uti's colleague was not bound to return a favour that she did not receive. Worse, Uti's colleague might retaliate with her supervisor, perhaps by refusing to work beyond what is minimally required.

(b) Staff Expectations—Supervisor Expected Behaviour: Gap 2

Gap 2 is related to the DGT's difficulties in delivering supervisors whose ability meets staff members' expectations. An interview with Uti revealed that she was disappointed when her supervisor gave her only trivial feedback on a report she had produced. At the time, Uti was working as an appeal reviewer⁷⁸⁶ in one of the regional tax offices in Jakarta. As such, she expected her supervisor to point out weaknesses in her reports before she went to court. Such feedback is often expected from a leader as it shows that the leader has an interest in the potential growth of an employee.⁷⁸⁷

We often talked behind Mr Y's [the supervisor] back ... [that] he was actually the head of the grammar division ... *dengan*⁷⁸⁸ misses 'n' ... We wanted feedback for us. It should not be like that ... [he] only checked A B C D. (Uti)

When she was transferred to the DGT's head office, still as an appeal reviewer, she was expecting to work under a supervisor with good technical and managerial skills. It turned out that she was expecting too much. This was largely because her supervisor lacked technical skills in taxation and was afraid to make decisions. Uti provided the following example:

It happens again now. She has a bachelor degree in law. Her position now in the civil review department is perfect for her because it deals with the High Court. The problem is, she lacks tax skills. What I mean is, when you lack technical skills, you at least should improve your managerial skillset. Because being an Echelon IV is not just about technical skills.

It was what month, plenty of appeals and counter appeals. Counter appeal is more difficult ... At that time Mrs Z [the director] did not want counter appeals formatted like

⁷⁸⁶ An appeal reviewer deals with taxpayers' appeals and often represents the DGT in court.

⁷⁸⁷ Bossidy, above n 758.

⁷⁸⁸ *Dengan* is an Indonesian word that means *with*. In this context, Uti's supervisor only provides feedback on spelling mistakes rather than on the content of the report that Uti considers more important.

appeals. So, [we're required to write] what is being disputed and [we present] our response right below it. This takes time. We had seven appeals at that time—corporate tax and VAT as well. It was a comprehensive audit.

What I mean is [my supervisor should] appoint a leader [from one of us]. Such as seven appeals, seven of us, just appoint one leader. ... She didn't do it. It definitely felt different when she appointed [one of us] as the leader rather than we self-appoint. She still didn't do it. And then we self-appointed one of us [as a leader]. She said that she did not want to appoint a leader because [who became the leader] was up to us ... If [what it takes] was only like that, we can be an Echelon IV like her too. And she was paid IDR 30 million⁷⁸⁹ [per month]. (Uti)

The lack of the supervisor's technical and managerial skills made Uti reluctant to discuss her work with her. Instead, she preferred to rely on her colleagues, who she believed to be more skilful:

[In the end] me and my friends chose not to discuss our work with our supervisor. We discussed it between us when a case comes up. As an example, about evidence, which section [in the legislation] should we refer to, [the discussion] was just among us. We hardly involved our supervisor ... We were more comfortable doing the discussion among us. (Uti)

The requirement for a supervisor to possess both managerial and technical skills was also highlighted by Asta:

Echelon IV is perhaps more towards managerial. But at least they should understand some technical aspects ... if they don't know they can simply ... read the rules directly ... (Asta)

A willingness to recognise weakness is a feature seen to be appreciated:

I once had a supervisor who admitted that he did not have good technical skills, but he was willing to learn. Every time a new case came up, he studied ... he looked up the applicable rules ... if that happens, discussions can flow. (Asta)

Uti mentioned her case when she was still at the regional tax office. She was under a supervisor that she considered good:

⁷⁸⁹ This roughly corresponds to AUD 2,900 per month at the time of writing. With a minimum wage of IDR 2.7 million per month (approximately AUD 270) in Jakarta, this wage is considered high.

I actually wish for a supervisor like Mrs X. She supervised us closely, on administrative stuff, for instance if we did not finish our report on time ... all of those things. Someone like Mrs X is great. She was great, I must admit. Technically she really knew. (Uti)

Uti also provided an example of another supervisor that she considered above average: You know Mr A? ... [Maybe] because he had been in that position for quite some time, he was rather ignorant. But he was willing to take risks for his staff members. If we made mistakes or there was something that we missed [in our analysis], he was courageous [to take risks for us] ... And then there was Mr B who was also good ... Whenever we needed, he ... was brave to make a decision. He was willing to take risks for his staff members. (Uti)

Uti then contrasted this with what happened when there was a fire at the DGT head office. As a result of the fire, there was chaos and most of the elevators and attendance machines were not operational. Uti recalled how in the middle of the chaos caused by the fire, people queued to log off at the small number of attendance machines that were still operational when they left the building that day. Uti recalled that people queued because of their fear of taking a risk:

[This is because] none had the courage to take the risk [to decide to ignore the attendance system]. The reason for this was that they did not want to be held responsible [for inciting others not to log off at the attendance machines] by Kitsda. (Uti)

Another participant, Asta, described a different experience. He was an AR in one of the tax offices in Central Java. He had worked under several supervisors during his career; mostly he remembered they lacked *leadership skills*: 'I've been under several supervisors. Those whom I considered good I can count [using my fingers] and mostly their leadership skills were ... well just so' (Asta).

These supervisors were those who defined their jobs as having the smallest possible scope and strictly limited their activities to the minimum required to do their job and nothing more:

[T]hose [supervisors] who [Asta considered] were not good [acted that] if we [ARs such as Asta] don't send any letter [to a taxpayer] or anything else he would not do anything either [hence the supervisor only followed what the ARs did]. At the maximum he

simply asks 'eh, you haven't submitted any letter, please submit one'. Once we submit a letter [for a particular taxpayer] and then he signs, and that's it. (Asta)

Asta also recalled what he referred to as avoidance:

Sometimes there is that avoidance technique. What I mean is that [sometimes he says] you deal with [that taxpayer] first, I'll handle the finishing touches. But then ... even in the finishing stage ... he became cranky. I mean when he could not do anything else [he says] you go to my subordinate. This automatically means that there is no teamwork. (Asta)

Asta saw that the ones he considered good leaders were those who had the ability to lead and have a clear vision:

The good ones can direct us to ... I mean [the supervisor says] come on, encourage us, push us, organise us, I mean you do this and this, or we have this input and then let's discuss it so that ... The point is ... first, that supervisor knows our goals. Okay, our goal is intensifying tax revenue, okay, let's start with taxpayer A for instance, the problems are here and here. Come on then, let's do it together. That's what a good supervisor is like. (Asta)

Similar avoidance tactics were also described by Uti. She described a situation near Idhul Fitri.⁷⁹⁰ She and her colleagues were instructed to finish their appeal reports before the holiday started, causing a sudden increase in workload. She remembered that one day, a student from one of the universities in Jakarta asked to see one of Uti's colleagues for an interview. The student was initially requesting to see one of the supervisors in Uti's division, but was referred to Uti's colleague by that supervisor. Uti remembered that the supervisor smiled and asked Uti's colleague to handle the interview. Uti was certain that the supervisor knew that Uti's colleague had a high workload that day, and in contrast, the supervisor's workload was not that high. Uti was amazed that this person could ask someone not in his division to do something extra, considering the circumstances. She wondered whether this was because of that supervisor's lack of skills:

⁷⁹⁰ In the Islamic tradition, Idhul Fitri is the day after the one-month fasting during Ramadhan is completed. It is the day when most Indonesian Muslims visit their place of birth to pay tribute to the elders, such as parents or senior relatives. As such, there is a certain period, usually two weeks, where most offices close down. The situation is similar to the summer holiday (covering Christmas and New Year) in Australia.

That supervisor ... his workload is not like in my place ... He came to H [Uti's colleague]. H has a similar workload to the rest of us. 'H can you help' [asked that supervisor] while smiling ... to be interviewed by this student for his undergraduate project ... When he said that, a colleague and I looked at each other—is he for real, we have now tons of work that has to be completed in no time, while he has not much to do; how could he ask for this? I couldn't believe it ... 'How come you said YES H' [asked Uti], 'what was I supposed to do?' [replied H] ... I couldn't believe this supervisor [why he did that] whether it was because he was not confident or did not have the technical skills ... and he knew perfectly well that we were like that [had a lot of work]. And H was not even his direct staff member. (Uti)

Another example was provided by Lin, who had recently been promoted. In a meeting at the DGT head office, she was told that she was expected to be what she described as 'a machine' at the new office. What was meant by *a machine* however was not clear. She continued that before she left for the new office, she attended a one-week preparation class. The class was not very useful with respect to her new job, although she acknowledged that it was useful in improving her self-confidence. Apparently, it was not clear to her what she was expected to do in her new job.

It can be seen from these accounts that these participants described instances of Gap 2 where the participants believed there are certain features that should inherently be exhibited from a supervisor that in fact were not there. This provides an indication of a gap between what was expected by the participants about their supervisor's behaviour. These participants posited that supervisors were ideally expected to be able to lead their staff members or be willing to take risks for them. Further, they needed to possess both good technical and managerial skills that they can rely on. Again, these expectations seemed to be in line with the father-son relationship cited earlier.⁷⁹¹

The set of skills highlighted by these participants are mostly related to what are referred to as soft skills. These skills, also known as personality traits, basically describe the personal attributes of a person.⁷⁹² Roberts defines personality traits as 'the relatively enduring patterns

⁷⁹¹ Dwiyanto and Kusumasari, above n 706.

⁷⁹² James J. Heckman and Tim Kautz, 'Hard Evidence on Soft Skills' (2012) 19(4) (2012/08/01/) *Labour Economics* 451.

of thoughts, feelings, and behaviours that reflect the tendency to respond in certain ways under certain circumstances'.⁷⁹³

Based on Roberts's definition, it can be seen that these attributes have a degree of permanence that is inherent to a particular person, although they can indeed change over time.⁷⁹⁴ These attributes are related to proficiencies in the human, conceptual, leadership and interpersonal skill categories⁷⁹⁵ and place more emphasis on personal behaviour and managing relationships between people.⁷⁹⁶ Weber et al define four groups of these skills:⁷⁹⁷

1. Leadership/people/relationship skills—These relate to the ability to negotiate with others. These include team work, service-oriented attitude or an ability to resolve conflict.
2. Communication skills—These cover listening, presenting and maintaining good verbal and non-verbal communication.
3. Management/organisation skills—These deal with, for example, setting goals, organising people and monitoring progress.
4. Cognitive skills and knowledge—These relate to decision making and problem solving.

As can be seen, this classification is consistent with what was expressed by the participants as described above, such as goal setting and organisation skills, service orientation, problem solving, decision making and committing to a team work environment.

It is believed that soft skills and hard skills—the latter relating to technical and detail-oriented skills⁷⁹⁸—are complimentary⁷⁹⁹ as superior performers generally require both.⁸⁰⁰ For example, it has been suggested that positive performance does not depend solely on technical

⁷⁹³ Brent W. Roberts, 'Back to the Future: Personality and Assessment and Personality Development' (2009) 43(2) (2009/04/01/) *Journal of Research in Personality* 137.

⁷⁹⁴ Heckman and Kautz, above n 792.

⁷⁹⁵ Melvin R. Weber et al, 'An Exploratory Study Identifying Soft Skill Competencies in Entry-Level Managers' (2009) 9(4) *Tourism and Hospitality Research* 353.

⁷⁹⁶ Elizabeth Rainsbury et al, 'Ranking Workplace Competencies: Student and Graduate Perceptions' (2002) 3(2) *Asia-Pacific Journal of Cooperative Education* 9.

⁷⁹⁷ Weber et al, above n 795.

⁷⁹⁸ Ibid.

⁷⁹⁹ Marcel M. Robles, 'Executive Perceptions of the Top 10 Soft Skills Needed in Today's Workplace' (2012) 75(4) *Business Communication Quarterly* 453.

⁸⁰⁰ Rainsbury et al, above n 796.

skills but also the manifestation of good behavioural skills;⁸⁰¹ having those skills may be critical to a person's failure or success.⁸⁰² The fact that participants in this research felt a lack of largely soft skill competencies is not an uncommon phenomenon. This is probably because institutions tend to spend minimal time on training in soft skills such as coaching, leading or giving feedback. This makes it difficult for new managers to provide feedback or establish the right tone with peers.⁸⁰³

Although personality measures—such as interpersonal skills—is now considered important in predicting work success,⁸⁰⁴ there is an assumption that they are more difficult to learn compared with hard skills, albeit those personality measures can be further developed through training.⁸⁰⁵ It is also often assumed that there is little evidence that soft skills can make a difference.⁸⁰⁶ It is therefore not surprising that during the selection process to become an Echelon IV or III in the DGT, known as *seleksi pengemban amanah*, the emphasis was on knowledge of the applicable rules in taxation and office administration.⁸⁰⁷ As of 2018, this is still the case. Although identifying competencies in personal traits was vital,⁸⁰⁸ achievement tests such as one chosen by the DGT in their *seleksi pengemban amanah* programme tend to be unable to sufficiently capture personal traits.⁸⁰⁹ Mintzberg outlines that leading can take place at three levels: at the individual level by motivating, coaching or mentoring on face-to-face informal occasions; at the group level by building and managing teams; and at the unit level through the creation and maintenance of culture.⁸¹⁰

Thus, the DGT should consider modifying the design of its selection processes to allow a more accurate approach in capturing such personal traits. What is also interesting is that participants noted that they would like to have had a supervisor who was willing to *go the extra mile*, a concept raised in the previous section. Apparently, if staff members could see that

⁸⁰¹ Lyle M. Spencer and Signe M. Spencer, *Competence at Work: Models for Superior Performance* (New York : Wiley, 1993).

⁸⁰² Weber et al, above n 795.

⁸⁰³ Erin White, 'Learning to Be the Boss; Trial and Error Is the Norm As New Managers Figure Out How to Relate to Former Peers' (2005) *Wall Street Journal*, Eastern edition B.1.

⁸⁰⁴ Robles, above n 799.

⁸⁰⁵ Weber et al, above n 795.

⁸⁰⁶ Shari Caudron, 'The Hard Case for Soft Skills' (1999) 78(7) *Workforce* 60.

⁸⁰⁷ This information is provided by Surya (pseudonym), a participant who just recently sit on such selection process.

⁸⁰⁸ Weber et al, above n 795.

⁸⁰⁹ Heckman and Kautz, above n 792.

⁸¹⁰ Henry Mintzberg, 'Rounding Out the Manager's Job' (1994) 36(1) *Sloan Management Review* 11.

they had a supervisor who was willing to do that, the process of copying noted in the previous section would take place. Once this happened, citizenship behaviour in the form of a willingness to *go the extra mile* would transfer from supervisor to staff members.

Gap 2 might be closed by improving human resource regulations. This could be done, for example, by making clear the set of skills—either hard or soft skills—that are required for a certain position. In her official new job description, for instance, lin was required to provide ‘technical and administrative assistance on tax collection, supervise the implementation of tax collection policy, and provide assistance on tax collection’⁸¹¹ with no further details provided.⁸¹² This became more difficult for lin because she did not have any experience relating to tax collection from her previous role at the DGT, was not related to that activity:

Mostly are older and more experienced, only two who are younger than I am ... Imagine ... a female, younger, zero experience in tax collection, but tasked with a job to guide colleagues who are more experienced [as tax collectors]. (lin)

These accounts provide an indication of Gap 2. This gap may be caused by unclear expectations that need to be met by a supervisor, particularly on soft competencies. As in Gap 1, it is predicted that an increase in Gap 2 will contribute to the widening of expectation Gap A. This in turn may limit a staff member’s performance and the overall office performance further down the road.

(c) Supervisor Expected Behaviour—Supervisor Observed Behaviour: Gap 3

This gap relates to whether behaviour expected of a supervisor is in fact seen in reality. Gap 3 can be seen in cases of mentoring and coaching described by the participants. In this case, Rosa, a participant who worked at the DGT head office mainly dealing with taxpayer extensification policy—a policy aimed at registering new taxpayers—spoke of instances where staff members of one section of the tax office were transferred to a different section. She described several events that she knew had taken place in the taxpayer extensification and education section.⁸¹³ Because of the nature of her job at the DGT head office, she knew well

⁸¹¹ Article 17 paragraph (3) Minister of Finance Regulation No 132/PMK.01/2006.

⁸¹² A PowerPoint presentation document obtained by the researcher however suggested that *before* a person hold a certain position they need to acquire the required skills. Additional documents providing example of such skills however were unable to be obtained. This PowerPoint slide also states that the implementation of a proper talent management faces a number of obstacles, such as the assumption that promotion is something that is predestined following a seniority level.

⁸¹³ Taxpayer extensification and education is one of the sections at the Indonesian small tax office (article 60 Minister of Finance Regulation No 206.2/PMK.01/2014). Article 61 sub section (6) of this regulation stipulates that this section’s main duties

that this particular section was frequently assigned staff with minimal experience. As such, a large degree of education, sometimes conducted in collaboration with the Financial Education and Training Agency (an agency outside the DGT but within the Ministry of Finance), was often required for these staff. However, when their skills finally were considered upgraded, it was often the case that they were transferred to a different section, such as the taxpayer service section, or became an AR and left the taxpayer extensification section that originally trained them.⁸¹⁴

In exten [referring to the taxpayer extensification section] this is what happened. We often train people ... they provide [this particular section] with ... human resources of zero experience ... When they became skilful, they are transferred somewhere else, to be an AR or transferred to the taxpayer service section. It is always like that. (Rosa)

Rosa was basically pointing out that there was a tendency to prefer shortcuts. Therefore, rather than educating their own staff, it was more preferable to recruit staff from other sections who were already skilled. In this context, the coaching and mentoring function seemed to be lacking.

Whitmore defines coaching as 'unlocking people's potential to maximize their own performance'.⁸¹⁵ The focus is on building a learning relationship mainly aimed at helping people to assume responsibility for their own development and to maximise their potential.⁸¹⁶ Although often used interchangeably, the terms coaching and mentoring actually carry different meanings. Connor and Pokora list seven differences between the two, ranging from their duration to the variety of issues that they cover.⁸¹⁷ According to these authors, the main difference, however, seems to be the fact that while mentoring is aimed at creating an ongoing process of experience and knowledge sharing, coaching is part of an employee's performance review.

relate to, among other things, identifying potential revenue, collecting and maintaining taxpayers' data, and conducting tax education for new taxpayers.

⁸¹⁴ Under article 7 sub section (1) Minster of Finance Regulation No 79/PMK.01/2015, the minimal requirement of an AR is a high school degree, making most of the staff at the tax office are eligible to be one.

⁸¹⁵ John Whitmore, *Coaching For Performance: GROWing Human Potential and Purpose: The Principles and Practice of Coaching and Leadership* (Nicholas Brealey, 4th ed, 2009).

⁸¹⁶ Mary Connor and Julia Pokora, *Coaching and Mentoring at Work: Developing Effective Practice* (McGraw-Hill Education, 2nd ed, 2012).

⁸¹⁷ Ibid.

At the DGT, coaching and mentoring, often used interchangeably, was a requirement for a supervisor. However, it was seldom put into practice—as acknowledged by Ed, a former head of a tax office—although he realised that ongoing coaching or mentoring by a supervisor was more essential in the development of a tax officer than was training:

Everyone now has to sit on an assessment panel. From this, a person's weaknesses can be seen. Then it is that person's supervisor's job to do coaching ... But it is not that simple ... it needs a process [and it takes time]. Coaching is not a simple one-time process. It is exactly at that point that sometimes we miss [conducting the coaching process] ... because normally there are a lot of other things to do. (Ed)

In one of the PowerPoint slides obtained from a staff member at the internal compliance division (this division is known within the DGT as Kitsda, see also Section II.A.1.(b) in this chapter), it was stated that monitoring and coaching was conducted as part of the performance review system. It was described that, based on the performance contract agreed at the beginning of a particular year, a supervisor would conduct monitoring and coaching with their staff members. This would identify high and low performers. While high performers, at a certain level, would then be directed towards promotion (or transferred to a different unit), low performers were to undergo a special development programme to improve their performance. If unsuccessful, they would be considered for redundancy. In practice, though, it was quite rare for tax officers to be subject to redundancy unless they were convicted of a criminal offence such as bribery. Under Connor and Pokora's definition described above, the process referred to as coaching in the PowerPoint slide referred to earlier is actually a mentoring process while the special development programme is the coaching activity.

In this case, particularly in Rosa's view, the tendency to prefer shortcuts was caused by the lack of ability of the supervisor to arrange a proper mentoring process. As a staff member herself, she believed that a supervisor should possess basic managerial skills, such as knowledge relating to their main duty, which essentially refers to technical skills and knowledge of mentoring (she used the term *coaching*) and leading.

The ability to conduct mentoring is beneficial for both mentor and protégé. For mentors, the mentoring process has the benefit of providing satisfaction and a sense of accomplishment. It is also related to recognition in being viewed as able to show good citizenship behaviour, which possibly relates to the positive correlation between being a

mentor and receiving an increase in salary and promotion.⁸¹⁸ For a protégé, mentoring provides the benefit of career mentoring, particularly if the mentor is the protégé's supervisor.⁸¹⁹ It also has a positive effect on work attitudes and is related to job satisfaction and commitment.⁸²⁰ In a formal setting, mentoring activities can benefit an employee in the form of career planning assistance and networking opportunities.⁸²¹ Also, mentors who are rated as 'engaging' by their protégés generally are considered to perform better.⁸²² Protégés also obtain new skills, support and allies.⁸²³ Such mentoring programmes can be a success if voluntary, the mentor and protégé are well-matched, the mentor is well trained and there is support from management for the whole process.⁸²⁴

It is the middle managers who fail to provide proper direction ... The point is [they] should know their basic duties. That is number one. Number two, they should ... be able to coach and lead. It seems that there is a weakness in that part. (Rosa)

This lack of capabilities made it difficult for staff members to have, for example, a proper discussion with their supervisor: according to Rosa, 'The Echelon IV supervisors do not have adequate capability ... making it difficult [for staff members] to have a proper discussion'.

To deal with this issue, one participant noted that the human resource department should have taken a more proactive approach, such as by conducting coaching for supervisors who suffered from a lack of capabilities:

Our HR [human resource] department, how they manage the [DGT] staff. I mean when they know an Echelon IV supervisor is like that, they should provide training [to improve their skills]. (Asta)

Asta's account generally is in line with Connor and Pokora's view that coaching is part of a performance evaluation process. Here, Asta highlighted the lack of coaching aimed at his

⁸¹⁸ Tammy D. Allen, Elizabeth Lentz and Rachel Day, 'Career Success Outcomes Associated With Mentoring Others' (2006) 32(3) *Journal of Career Development* 272.

⁸¹⁹ Terri A. Scandura and Ethlyn A. Williams, 'Mentoring and Transformational Leadership: The Role of Supervisory Career Mentoring' (2004) 65(3) (2004/12/01) *Journal of Vocational Behavior* 448.

⁸²⁰ Ibid.

⁸²¹ Lillian T. Eby and Angie Lockwood, 'Protégés' and Mentors' Reactions to Participating in Formal Mentoring Programs: A Qualitative Investigation' (2005) 67(3) *Journal of Vocational Behavior* 441.

⁸²² William A. Gentry, Todd J. Weber and Golnaz Sadri, 'Examining Career-Related Mentoring and Managerial Performance Across Cultures: A Multilevel Analysis' (2008) 72(2) *Journal of Vocational Behavior* 241.

⁸²³ Adrian Furnham, *The Talented Manager: 67 Gems of Business Wisdom* (Palgrave Macmillan UK, 2012).

⁸²⁴ Ibid.

supervisor. He basically identified that coaching was not only required by staff members but was also important for their supervisor as well. Although recently viewed as an intervention tool to change the behaviour of a manager⁸²⁵ by facilitating learning to improve performance,⁸²⁶ coaching is primarily aimed at correcting deficiencies in an employee's performance. This is what Asta believed was lacking at the office where he worked, resulting in him having to face a low-skilled supervisor.

This situation was different from that at the pilot offices. As outlined in Chapter V, one of the key features at the pilot offices was their training opportunities. This training was either conducted formally and facilitated by the IMF—as normally took place at the LTO—or informally from one tax officer to another, often seen at the STO. The key factor here was that there was a commitment from the organisation to facilitate these activities. This led to several innovations mainly stemming from the activities of staff members. It also helped improve the performance of staff members. Skilled mentors and official support seem to be lacking at the moment.

These accounts are basically in line with those provided by other participants in the previous section, which outlines staff members' expectation that their supervisor would have an acceptable level of skills, both hard and soft skills. In this section, while it is expected for a supervisor to have the skills to do coaching as part of their job design, it is clear from Rosa's accounts that this requirement did not seem to be met adequately. This indicates a discrepancy between the ideal behaviour and behaviour that was seen in reality, referred to as Gap 3 in this thesis. This indicates that supervisors did not perform in the way they should. It is suggested here that an increase in Gap 3 may worsen expectation Gap A.

2 Expectation Gap B (Supervisor Expectations): Gap 4

Gap 4 in essence can be seen as the opposite of Gap 1. While Gap 1 refers to staff expectations, Gap 4 examines supervisors' expectations for their staff's actual behaviour. This was illustrated by Juna, a tax collector at one of the tax offices in the eastern part of Java. Juna mentioned two examples that provide evidence for the existence of this gap. In the first example, Juna described a problem faced by one of his colleagues. He said that his colleague

⁸²⁵ Daniel C. Feldman and Melenie J. Lankau, 'Executive Coaching: A Review and Agenda for Future Research' (2005) 31(6) *Journal of Management* 829.

⁸²⁶ Daniel C. Feldman, 'Career Coaching: What HR Professionals and Managers Need to Know' (2001) 24(2) *Human Resource Planning* 26.

was unhappy about the performance of one of the Echelon IV supervisors under his coordination, as he seemed to have difficulty following up discussions in routine meetings on tax revenue optimisation. It was suspected that this condition was due to a lack of passion, possibly because of poor technical skills in taxation. This would be frustrating because generally, as noted by Bossidy, a leader expects his subordinates to offer new ideas and stay up to date on the situations around them,⁸²⁷ yet '[They] do not have the passion for tax revenue optimisation ... perhaps because of a lack of [technical] skills', said Juna.

In the second example, Juna explained what took place in his office. He said that some of the Echelon IV supervisors seemed to be less enthusiastic about their work. For instance, Juna knew that one such supervisor, who coincidentally was from the local community,⁸²⁸ spent more time at home than did his peers, to take care of his bird. Juna also knew that this person had been working out of town and only recently transferred to the local tax office near his place of residence. This made Juna suspect that he was enjoying his time and wanted to work only just enough. The problem was, Juna continued, his attitude affected his staff members: 'When [a supervisor] cannot be asked to run [act quickly in term of tax revenue optimisation], it will affect his staff members'.

Such difficulties were also confirmed by Ed. During his time at the tax office, Ed initiated a new approach for small business owners that later became the USP. One of the difficulties that he faced was finding tax officers who were able to patiently engage with these taxpayers:

At the tax office, we cannot pick the persons who we want. This has become a problem ... we can do coaching and all this sort of things but it may not solve the problem quickly, because we cannot move officials from one place to another ... I cannot transfer an Echelon IV supervisor. [For example because] he is not good in PDI [Data and Information Processing section], I have to make a formal request for that and quite possibly I would not get what I request. This causes a gap. Like Mr XXX in another tax office there may not be anyone like him. Even if there is, he may not be in that position. And this causes a mismatch. (Ed)

⁸²⁷ Bossidy, above n 758.

⁸²⁸ This kind of condition, where a tax officer works in a place where that officer is from, colloquially in DGT is referred to as working in a home base. This is often considered as an ideal condition as most of the Indonesian tax officers work away from their home town.

These examples indicate the existence of Gap 4, the widening of which may limit the overall performance of the office. In the examples above, this could be either in the form of non-optimal strategy execution or staff performance.

As a way to reduce Gap 4, it has to be understood that each supervisor may have a different *drive* to motivate employees. This includes the drive to acquire, to bond, to comprehend and to defend.⁸²⁹ The drive to acquire, when fulfilled, creates a sense of delight; on the contrary, it causes a feeling of displeasure when it is thwarted. It is proposed that a way to address this desire is by offering a suitable reward system. However, offering compensation alone is not sufficient as people also need to be connected with their peers. A sense of connectedness signifies the drive to bond. If fulfilled, this drive results in positive emotions such as being loved or cared for. In a workplace environment, this will improve an employee's pride in their organisation. However, if this drive is not met, employees felt betrayed, which may cause them to lose their morale. Thus, creating a culture that promotes teamwork, openness, collaboration or friendship is important.

The next drive to consider is the drive to comprehend. This means that employees often need to understand what happens around them and formulate sensible actions and responses. They are often frustrated if they have difficulties in understanding things around them. This also means that their desire to make a meaningful contribution can be frustrated by monotonous jobs that may lead to a dead end. Hence, it is essential for an employee to have a meaningful job with an important role in meeting the organisation's goals. Finally, an employee's drive to defend need to be considered as well. This drive manifests in the form of a desire to seek justice and fairness, which enables an employee to express an opinion freely. Once satisfied, this drive promotes a feeling of confidence and security. It unfortunately also creates resistance to change, fear or resentment if it is not met.

Understanding these drives is therefore essential. One of Juna's examples made it apparent that being able to work in an office situated in a place where an employee originally was from—frequently referred to as their home base—was an extra reward on top of the monetary compensation sought by that person. This could be his drive to acquire. Once it was achieved, he was in his comfort zone and felt that he needed to defend his current position by

⁸²⁹ Nitin Nohria, Boris Groysberg and Linda-Eling Lee, 'Employee Motivation: A Powerful New Model' (2008) (July-August) *Harvard Business Review* 78.

focussing on efforts to work just enough to maintain that position. The person should have been reminded that working in his home town may not last forever and that eventually, he would need to be transferred to a new location, essentially removing the extra reward of working in his home town. If he wanted to have that reward again, he needed to earn it via his job performance.

Another useful framework in this regard is that presented by Ira Chaleff. He proposes a model of what he calls 'courageous followership', whereby followers provide support for their leader without being afraid to speak the truth. Under this model, Chaleff advocates that a follower should have the attributes of assuming responsibility, serving a leader, challenging a leader, participating in transformation and taking moral actions.⁸³⁰ It has been shown that employees who are able to demonstrate these behaviours will likely be regarded as having positive performance by their supervisor.⁸³¹ In short, this thesis presents evidence for the existence of Gap 4. This gap might be reduced by requiring supervisors to recognise an employee's needs. Employees, on the other hand, need to focus themselves on assuming positive attributes. Examples of these attributes are provided by Bossidy and Chaleff and include actively taking initiative by offering new ideas, staying current and assuming responsibility.

B Communication Gap: Gap 5

This gap in essence deals with how the DGT communicates with its employees. The key issue in this case is the accuracy of transferred information. A good example of this can be seen in the situation surrounding the issuance of Presidential Decree No 37/2015. This decree contains a set of rules regulating additional wages for tax officials. These wages are calculated based on tax revenue collected in the previous financial year. Basically, the decree defines a significant increase in monthly salary, particularly for higher echelons at the DGT. However, wages will be cut if the tax revenue target is not met.

The highest payment stipulated in that presidential decree—this decree was in force as of 2015—given to the Director General of Taxes, in the amount of IDR 117.375 million (~AUD 11,050) per month; the lowest was IDR 5.36 million (~AUD 505) per month for a staff

⁸³⁰ Ira Chaleff, *The Courageous Follower: Standing Up to and for Our Leaders* (Berrett-Koehler Publishers, 2009).

⁸³¹ Theresa Rich, *Becoming The Boss Whisperer: An Examination of the Relationship Between Employee Follower Behaviors and Supervisor Satisfaction with Employee Performance* (PhD Thesis, Capella University, 2008) <<https://search-proquest-com.dbgw.lis.curtin.edu.au/docview/220013593?accountid=10382>>.

member. This was a significant increase from the IDR 46.95 million (~AUD 4,420) per month and IDR 3.15 million (~AUD 297) per month, respectively, paid in 2014. This constituted an increase of 150% for the highest echelon and 70% for the lowest level of staff. This increase, however, was to be cut by an amount of 10% to 50% if the target revenue was not met.⁸³²

However, the participants in this research revealed a different story. One participant, Trish, recalled that on a number of occasions, mostly at meetings, staff were informed that the increase would be a flat rate of 250%. However, when this was officially announced, the increase mostly benefitted those at the higher echelons, unlike the flat increase referred to previously. Another participant, Melly who was an AR at a local tax office in eastern Java, expressed concern about her friends. In 2015, the target revenue was increased significantly, to IDR 1,294.2 trillion (~AUD 121.8 million) and she estimated, accurately, that the DGT would not be able to meet this target. As such, she was worried that the take-home pay of some of her friends might be reduced because of the pay cut, compared with what they had earned in the previous year. She was afraid that the staff members who would suffer most were those at lower ranks, who often worked harder than higher-ranked officials in her office.

Melly's concern was shared by others. A few DGT staff who posted on the internet—mostly on free websites such as Kompasiana⁸³³—expressing concern about this issue. They used terminology such as *ketapel*⁸³⁴ (*Kelompok Tunjangan Pelaksana Lainnya*, a group for employees whose wages belong to the miscellaneous group in the Presidential Decree No 37/2015). A video posted online by a person from a tax office in Kalimantan (Borneo) also described a similar situation. The video included a portion of a movie clip showing Adolph Hitler and his generals. The dialogue was in German, but the caption was edited in such a way that it described the concerns of members of the Ketapel group in that particular tax office.

Uti, a participant who worked at the DGT's head office, recalled that after Presidential Decree No 37/2015 officially came into force, she felt that her supervisor maintained a certain distance from general staff members—possibly, she believed, because that supervisor was afraid of being confronted because of the possibility that the take-home pay of the general

⁸³² Presidential Decree No 37/2015.

⁸³³ Kompasiana is a web logging site managed by Kompas, a leading Indonesian daily newspaper. An article about the Ketapel movement on this site for instance can be seen in <http://m.kompasiana.com/post/read/713789/2/ketapel-pajak.html>.

⁸³⁴ *Ketapel* in bahasa Indonesia means a traditional tool—that looks like a slingshot—commonly used by children to shoot small rocks.

staff would decline compared to what they earned in 2014. Wono, a participant who held a position as a head of section in a local tax office, however, commented sharply that if one of his staff had approached him about this matter, he would have replied that this increase was earned rather than given. He continued that if one wanted this kind of increase, then they needed to work hard, continue to study and attend workshops, so that they could be promoted. It was clearly not easy, but this was what was needed to deserve such an increase. This type of remark featured in the video mentioned previously.

Jono, a participant who was one of the highest echelons at the DGT head office, acknowledged the issue. He said that Presidential Decree 37/2015 was deliberately drafted in such a way that it benefitted the higher echelons because he knew that at the moment there were many DGT staff who refused to be promoted to higher positions far from their home towns. This new financial compensation was designed to provide the incentive for such staff to take promotions. Jono seemed to not recognise that promotion or a pay rise might cause demotivation, particularly if it was seen as being applied not in a fair manner.⁸³⁵

The problem seems to be located not in the amount of the increase, but rather, in what is referred to in this thesis as a *communication gap*. In this case, it was stated on a number of occasions to DGT staff by their supervisor that the increase would be a flat rate of 250%, as previously mentioned by Trish. The final average increase was lower, at approximately 190%. What went unnoticed was that the increase was not a flat-rate increase. It instead ranged from 70% (for lowest-ranked staff) to 261% (the highest-ranked official). As a result, when the increase was officially announced, it was not the same as what had been promised. Thus, the drive to bond seemed not to be fulfilled as staff members considered their supervisors' words and deeds were not consistent. This contrasted with the requirement for a leader to be consistent in his words and deeds, as discussed in relation to Gap 1.⁸³⁶ Thus, some staff felt betrayed, resulting in—in Sri Mulyani's⁸³⁷ words—demoralisation⁸³⁸ as can be seen in the *ketapel* movement. This may have undermined the level of staff trust in their supervisor, an important factor in improving performance (see Gap 1).

⁸³⁵ J. Stacy Adams, 'Towards an Understanding of Inequity' (1963) 67(5) *The Journal of Abnormal and Social Psychology* 422.

⁸³⁶ Kouzes and Posner, above n 759.

⁸³⁷ Sri Mulyani is, at the time of writing, the Indonesian Minister of Finance.

⁸³⁸ Fiki Ariyanti, *Begini Ketimpangan Tunjangan yang Dikeluarkan Pegawai Pajak* <<http://bisnis.liputan6.com/read/2995842/begini-ketimpangan-tunjangan-yang-dikeluarkan-pegawai-pajak>>.

Another issue to note is the trustworthiness of the information delivered via official channels. When the trustworthiness of such channels decreases, staff tend to turn to unofficial channels, commonly known as *the grapevine*. Essentially, the grapevine can be defined as the spread of rumours and gossip from one person to another.⁸³⁹ It is uncontrollable,⁸⁴⁰ often faster than formal channels and moves through the organisation in every direction.⁸⁴¹ Unfortunately, while it may contain some truth, the grapevine seldom has the whole truth. It frequently increases when there is uncertainty or in situations where news is lacking.⁸⁴²

In the DGT, one of the prominent grapevine channels was an online discussion forum called the Fordis (Forum Diskusi, Discussion Forum) run via the DGT's own computer network. It was possibly through such channels that the 250% flat increase spread rapidly. The *ketapel* movement gained its popularity through this channel, among others. The extensive use of the grapevine within the DGT was exacerbated by the habit of some higher echelons to use instant messaging services, such as traditional text messages or WhatsApp. Some information, which was claimed to be authentic, spread through these services in the form of text messages or scanned images of hand-written messages. The accuracy of such information generally could not be warranted as information flowing through such channels is typically subject to multiple interpretations as it moves through the network.⁸⁴³ This widened Gap 5, leading to reduced employee trust in their supervisors, further contributing to the widening of Gap 1. This may have led to a decrease in morale as these employees' drive to bond was not satisfied, as acknowledged by the Minister of Finance herself.

During the pilot office trial, in contrast, the situation was different. At that time, it was seen as common for a supervisor to be in a close relationship with their staff. Supervisors often shared personal information on current events surrounding the pilot project. This created closeness between staff and supervisor. This situation further instilled trust between the two and led to a positive working environment, as discussed in the previous chapter.

⁸³⁹ Gunver Lystbaek Vestergaard, 'The Science Grapevine: Influence of Blog information on the Online Media Coverage of the 2010 Arsenic-based Life Study' (2017) 18(5) *Journalism* 626.

⁸⁴⁰ Ibid.

⁸⁴¹ Jitendra Mishra, 'Managing the Grapevine' (1990) 19(2) (Summer 1990) *Public Personnel Management* 213.

⁸⁴² Ibid.

⁸⁴³ Ibid.

III CATEGORY II: EXTERNAL GAP

This gap involves the discrepancy between taxpayer expectations regarding DGT performance and the performance that they observe. In this thesis, it is argued that internal gaps may affect staff performance, which ultimately influences the overall office performance. If the office performance deteriorates, it will be more difficult to meet taxpayers' expectations, thereby widening Gap 6.

The key issue in Gap 6 is that it is important for the DGT's performance to meet taxpayers' expectations. This can be seen, for instance, in the accounts of the participants in this study. One participant, Yaseen, described his experience during the peak period of tax return lodgement in March 2016. He was conducting a demonstration for a group of taxpayers regarding the newly launched online tax return lodgement system. This online system was accessed through the internet using a website with the address *djponline.pajak.go.id*. However, the system stopped working halfway through the session. Yaseen clearly remembered that one of the taxpayers said that the system should have been called *djpooffline.pajak.go.id* instead (emphasis added)! While there were many factors that might have caused the system failure, in this particular case, Yaseen experienced a lack of support from the DGT head office, particularly from the IT department.

In a different setting, another participant, Siti, told a story about the small business taxpayer community known as USP. This community arose from her belief (and later manifested as a research project) that most taxpayers were willing to pay taxes if they were approached using an appropriate method. Siti argued that if taxpayers were able to experience that the tax office was willing to help, then taxpayers would do the same in return. The USP currently works closely with a local tax office in Pondok Aren, where Siti lives. The tax office helps organise training in accounting, marketing and general networking and market events for members of USP. Education on taxation matters is largely set aside as tax payments are seen as a side effect. According to Siti, members of this community mostly agree that because the tax office helps them grow their businesses, it is only fair that they pay their fair share of tax in return. At the moment, most of the DGT's measures to improve compliance are directed towards activities that tend to benefit the tax office. This includes, for instance, education on tax rules for business associations or employers; identification of non-filers; closer scrutiny of

taxpayers participating in the recent tax amnesty programme; and imposition of penalties on non-filers.⁸⁴⁴

This strategy generally is in line with the definition of tax contained in Article 1 Law No 6 of 1983 which generally denies a direct link between tax payments and taxpayers' compensation. It is also consistent with the concept of coercive relations originating from the German doctrine of public law. In this concept, paying taxes is an obligation created by public authorities.⁸⁴⁵ In this case, the law provides legitimacy to the power to tax and grants tax administration administrative powers. This power then can be exercised over taxpayers, who, in addition to paying taxes, must undertake certain administrative duties that are necessary for the application of the tax law. In the literature, this is known as compliance cost, which generally represents the value of resources borne by taxpayers to satisfy the requirements of tax legislation.⁸⁴⁶ This can be voluntary or mandatory covering both monetary and non-monetary costs.⁸⁴⁷ It for instance includes acquiring relevant taxation knowledge, maintaining a proper accounting system, and completing tax return on time. In Indonesia, the compliance cost of large corporate taxpayers is estimated to reach 3.16% of total tax revenue in 2010.⁸⁴⁸ Although it is lower compared to Australia (17.90%), USA (3.2%), or Canada (4.6%-4.9%), this does not mean that the Indonesian tax system is less complicated due to the significantly lower wage and the smaller company size included in the compliance cost calculation in Indonesia.

An increase in compliance cost generally represents a waste of economic resources as it increases tax burden with no corresponding increase in tax revenue.⁸⁴⁹ Further, as it distorts economic decision making and optimal resource allocation as well as negatively affects taxpayer overall compliance, compliance cost generally is seen as a problem for the society.⁸⁵⁰

⁸⁴⁴ Circular Letter No SE-06/PJ/2017.

⁸⁴⁵ María Teresa Soler Roch, 'Tax Administration versus Taxpayer – A New Deal?' (2012) 4(3) *World Tax Journal* 282.

⁸⁴⁶ Binh Tran-Nam et al, 'Tax Compliance Costs: Research Methodology and Empirical Evidence from Australia' (2000) 53(2) *National Tax Journal* 229.

⁸⁴⁷ Tracy Oliver and Scott Bartley, 'Tax System Complexity and Compliance Costs—Come Theoretical Considerations' (2005) *Economic Roundup (Winter, 2005)* 53.

⁸⁴⁸ Susila Budi and Jeff Pope, 'Why the Tax Compliance Costs of Large Companies in Indonesia are Low Compared to Other Countries: Empirical Evidence' (2014) 29(1) *Australian Tax Forum* 59.

⁸⁴⁹ Sebastian Eichfelder and François Vaillancourt, 'Tax Compliance Costs: A Review of Cost Burdens and Cost Structures' (2014) (210) *Hacienda Publica Espanola* 111.

⁸⁵⁰ Sebastian Eichfelder and Frank Hechtner, 'Tax Compliance Costs: Cost Burden and Cost Reliability' (2018) 46(5) *Public Finance Review* 764.

This causes a condition where taxpayers and tax administration are not on an equal footing as tax administration holds the superiority. This can be seen in the description provided by Ann, a small business owner. She was a member of USP and had been encouraging her colleagues to pay taxes:

[W]hen a small business owner came, [the tax officers] still use their strict language. [They] just register for a tax identification number they are asked on the spot how long have you been doing ... your business. Then they must pay unpaid tax for several years. [The fact is] we do it on purpose ... as an inducement ... once they understand ... [they will pay tax] based on their bookkeeping. But for a person who just know, they will certainly be shocked ... They try to be honest and then they are told to pay a certain amount of tax, they will be shocked and run ... if they have to look back for years behind, have to open their reports, they're lucky if they have bookkeeping, but what if their data are like that [messy]? (Ann)

In Indonesia, tax liability generally expires within five years from the date a tax is payable.⁸⁵¹ Indonesian tax officers normally require new taxpayers to provide evidence concerning the duration of their business and then tax them accordingly with penalty. The legislation provides that the maximum duration for which a business can be taxed prior to being registered is five years. In the above quote, Ann was describing her colleague being required to undergo this procedure. That colleague was new to taxation and was shocked and ultimately left the tax office and refused to be registered as a new taxpayer. This could worsen if that business owner did not have proper bookkeeping, as normally happens in small businesses, commonly known as 'hard to tax' people. This group of taxpayers normally fails to voluntarily register as taxpayers, and if they do, they normally do not keep appropriate records for their businesses, tend to fail to promptly lodge tax returns and hence are often be considered as being non-compliant.⁸⁵² They generally include small business owners similar to the USP's members. Therefore, this example illustrates that a more humane approach, not simply applying the letter of law, is essential.

⁸⁵¹ Article 13 sub section (1) Law No 6 of 1983 as Lastly Amended by Law Number 16 Of 2009.

⁸⁵² James Alm, Jorge Martinez-Vazquez and Friedrich Schneider, "Sizing' the Problem of the Hard-to-Tax' in James Alm, Jorge Martinez-Vazquez and Sally Wallace (eds), *Taxing the Hard-to-Tax: Lessons from Theory and Practice* (Emerald Group Publishing Limited, 2005) 11.

Siti saw this approach as incomplete because it did not create a sense that the tax office was there to help taxpayers. Instead, it generated a feeling that taxpayers were mere objects that, in the name of law, were sources from which money could be extracted. As a result, taxpayers may have felt disconnected from the tax office, and sometimes even disliked contacting the tax office. This can be seen in the attitude of Ahn, a small business owner, that paying taxes was for large businesses only. He also considered that providing public utilities, such as roads, was simply the government's responsibility. If people paid taxes, it was because they had no other choice but to do so because, as described by participant Aceh, tax payments were directly withheld during transactions with government agencies. These small business owners tended to be reluctant to deal with the tax office, according to Susy.

Siti, however, found that it was possible for taxpayers to have a good relationship with the tax office.⁸⁵³ The key to this lay in the mutual relationship. In other words, if the tax office wanted taxpayers to comply, what could the tax office offer in return? Ahn described the moment when he changed from a tax-ignorant person to a tax-aware business owner. He was invited to attend a gathering event organised by the tax office where he was registered. He was initially rather reluctant to go as the event was organised by the tax office and he normally considered their events as a 'Batman's trap'.⁸⁵⁴ He was, however, surprised that the event was unrelated to tax, being instead a motivation seminar tailored specifically for small business owners. Later, he participated in similar events and training organised by that particular tax office on packaging, online marketing and bookkeeping. The tax office also organised networking events and market stalls. That was the beginning of USP of which Ahn became a member. Currently, USP works closely with that tax office to organise workshops and seminars, print product catalogues and provide marketing assistance. This emphasises that a mutual relationship, one that brings benefits to both parties, is essential.

⁸⁵³ Khusnaini and Agung Widi Hatmoko, *Efektivitas Penyuluhan Pajak Berdasarkan Pendekatan Fogg Behavioral Model (FBM) Terhadap Tingkat Kepatuhan Wajib Pajak Orang Pribadi (Studi Kasus Pada KPP Pratama Serpong)* Badan Pendidikan dan Pelatihan Keuangan <<http://www.bppk.kemenkeu.go.id/publikasi/kajian-akademis?download=118:efektivitas-penyuluhan-pajak-berdasarkan-pendekatan-fogg-behavioral-model-fbm-terhadap-tingkat-kepatuhan-wajib-pajak-orang-pribadi-studi-kasus-pada-kpp-pratama-serpong>>.

⁸⁵⁴ Batman's trap is commonly used in Indonesia as an expression where a person is asked to do a certain thing with something of interest as a consideration but only to find out later on that they have been tricked to do something else that is undesirable. In other words, that person has fallen into the Batman's trap.

Another participant, Ed, acknowledged that there was often variation in how different tax officers dealt with taxpayers. He recognised that when he was tasked as a head of a local tax office, ARs and tax officials in the taxpayer extensification section normally approached taxpayers differently: the latter tended to be more humane compared with the former. This confirms Ann's account quoted above:

The way they communicate between new taxpayers in the [taxpayer] extensification [section] and older taxpayers ... with AR is rather different ... [Because] exten communicates better ... but when it comes to older taxpayers ... with AR, they communicate [with taxpayers] in a complicated way ... There is nothing wrong with that ... because AR has to be more detailed ... because they have [revenue] target ... it is impossible for them to treat different taxpayers differently. So there is a gap in taxpayers' expectations. There are points where voluntary compliance can be problematic. (Ed)⁸⁵⁵

Another important aspect is why a person pays taxes. The classic work of Allingham and Sandmo uses a rational economic approach such as the use of penalty and evasion detection.⁸⁵⁶ However, this is inadequate as taxpayers often show diverse behaviour.⁸⁵⁷ The applicable approach has begun to incorporate psychological factors, such as social norms and fairness, as well as economic factors.⁸⁵⁸ Participants in this research, however, offered a new reason to pay tax: as a charity or donation. This was highlighted by Ann who described that her main reason to pay taxes was to do *shadaqah*.⁸⁵⁹ She described that initially she was unwilling to pay taxes, particularly because of the massive corruption cases publicised by the media. However, when she became involved in USP, she began to realise that tax payments

⁸⁵⁵ New taxpayers generally are managed by the Taxpayer Extensification and Education section (Article 2 Director General Regulation No Per-21/PJ/2015). This includes taxpayers who are registered in the current or in the preceding financial year and taxpayers who have never lodged any tax return or paid any taxes since they are registered as taxpayers (Article 4 sub section (1) Director General Regulation No Per-21/PJ/2015). The management of these taxpayers are later transferred to their relevant AR as soon as the current financial year ends (Letter E Point 6 Circular Letter No SE-37/PJ/2015).

⁸⁵⁶ Michael G Allingham and Agnar Sandmo, 'Income Tax Evasion: a Theoretical Analysis' (1972) 1(3-4) *Journal of Public Economics* 323.

⁸⁵⁷ Alm, McClelland and Schulze, above n 238.

⁸⁵⁸ Alm, Kirchler and Muehlbacher, above n 186.

⁸⁵⁹ In the Islamic tradition, *shadaqah* basically covers any act of charitable giving done out of compassion, love, friendship or generosity. As such, it is voluntarily in nature.

are essential for Indonesian public sector spending. She now considers her contribution in the form of routine tax payments as a charity to help others who are less fortunate than she is.

In the context of the pilot offices discussed in the previous chapter, it is clear that one of their successes was their ability to recognise taxpayers' needs. This can be seen, for instance, in the creation of the accelerated refund procedure. This procedure was considered able to help taxpayers' cash flow position, which was essential, particularly because of the financial crisis that was taking place at that time.

These accounts underline the possibility that the DGT's approach towards taxpayers might be incomplete. Their traditional approach, based on the black letter of the law, could put the DGT in a position distant from their taxpayers. While it may be true that some taxpayers are non-compliant, it has to be recognised this is not the case for all taxpayers and a more humane approach may be more suitable for them. This shows that the DGT needs to demonstrate an ability to classify taxpayers into different groups, each approached using a different method.

In this context, in an email conversation, Rosa, spoke about trust and personal engagement that she believed to be important. She argued that an organisation that was able to create trust between staff and supervisor and then align the vision and mission of its staff with those of the organisation would benefit from the willingness of the staff to do extra work voluntarily. This can be seen for instance in Siti's work that eventually culminated in the formation of USP. Siti was willing to do this extra work—in fact she saw it as an issue of pride—because she considered her work a contribution towards the organisation's goal. She therefore saw her work as a *calling*. This willingness to do extra work is a key concept referred to as militancy in Chapter V.⁸⁶⁰ Unfortunately, as internal gaps widen, it is argued in this thesis that it will be more difficult to establish such militancy.

IV CONCLUSION

This chapter completes the picture surrounding DGT administration in the form of three main categories. The core finding in this regard is first the gaps identified inside the tax administration described as the first category in this chapter. These gaps reveal certain

⁸⁶⁰ Kristian Agung Prasetyo, 'Tax Administration Reform in Indonesia: Some Lessons Learned' (2017) 12(1) *Journal of The Australasian Tax Teachers Association* 77.

discrepancies found in the current and pilot office administration. The way the pilot office was administered, as outlined in Chapter V, was chosen as a starting point in this thesis against which current tax administration was evaluated.

The second important gap outlined in this chapter is the external gap. This gap, in essence, describes the possibility that the DGT might need to view taxpayers differently. Discussions with taxpayers revealed that voluntary compliance could be significantly improved by introducing a system through which the tax office's presence can be felt and seen as useful by taxpayers. Further, there is a need for them to be treated as a partner rather than as objects from which tax revenue can be extracted. It is shown in this chapter that the ability to reduce the external gap requires tax officers willing to *go the extra mile*. This in turn requires effort to lower the level of internal gaps. As such, these two categories are linked to one another.

These categories provide a framework that can be used as a tool to improve the way the DGT is organised. In the next chapter, the implications of the findings and the contributions of this thesis to tax administration practice in Indonesia are discussed.

CHAPTER VII

DISCUSSION AND CONCLUDING REMARKS

I INTRODUCTION

Chapter V and Chapter VI in this thesis provide a detailed picture of how the DGT has been administered. Chapter V describes the administration of the pilot offices, which forms the foundation for current tax office administration. The results of the comparison are then presented in great detail in Chapter VI. These two chapters provide a comprehensive picture of the administration of the DGT grounded in data, as shown by illustrative quotes from the research participants, and verified against the literature.

This final chapter focusses on several issues. First, it provides an overview of the current literature by summarising what is presented in Chapter II. Second, it explores the contribution of this thesis to knowledge and more importantly, to tax administration practice in Indonesia. Third, it discusses a range of possible directions for future research. Last, it outlines the limitations of the thesis and offers some concluding thoughts about this research.

II REVISITING HOW THE LITEATURE IS USED

As stated in Chapter IV, this thesis uses research methods that are largely borrowed from the grounded theory methodology. This methodology itself originates from the sociology work of Glaser and Strauss on dying in hospital, which ultimately led to the publication of *The Discovery of Grounded Theory*. This book was published mainly as a response to the domination of verification of theory written by 'great men fore-fathers who ... had generated a sufficient number of outstanding theories on enough areas of social life to last for a long while'.⁸⁶¹ Glaser and Strauss argue that hypotheses should be advanced after, rather than before, researchers complete their data collection and analysis. Thus, hypotheses are the product of a systematic data analysis process.

To that end, they advocate for the use of techniques such as constant comparison and theoretical sampling to ensure the development of theories that both fit and work. Data collection and analysis are conducted concurrently. This means that data are continuously

⁸⁶¹ Glaser and Strauss, above n 133, 10.

compared with previously developed codes. This guides decisions about what and where data are collected next. Later, Glaser and Strauss took different paths towards developing grounded theory: Strauss,⁸⁶² and then with Corbin,⁸⁶³ developed more detailed guidance on the grounded theory process, a move regarded by Glaser as no longer representing grounded theory.⁸⁶⁴ The difference between Strauss's approach and that of Glaser is methodological rather than stemming from their ontological and epistemological aspects.⁸⁶⁵ With Charmaz publishing an alternative version of grounded theory,⁸⁶⁶ there are now three main versions of grounded theory: Glaserian, Straussian and constructivist.

One of the key differences that can be identified in these approaches is how they use the literature.⁸⁶⁷ The Glaserian approach normally advises researchers to avoid consulting the literature in the early stages of a project, for ideological and pragmatic reasons.⁸⁶⁸ In the ideological sense, a literature review may prevent the generation of new categories.⁸⁶⁹ This may undermine the quality and originality of the research.⁸⁷⁰ Further, it may cause the researcher to be overwhelmed by the work of others, thereby undermining the researcher's own sense of self-competence in theory development. In a practical sense, because grounded theory tends to be unpredictable, conducting an extensive literature review can be wasteful and inefficient.⁸⁷¹ Literature searching should instead be postponed until the later stages of the research when the theory is well developed.⁸⁷² This usually takes place in the writing stage where the literature can then be integrated into the emerging theory and treated as data.⁸⁷³ The assumption is that the researcher, in choosing a topic, has read only a little about that

⁸⁶² Strauss, above n 662.

⁸⁶³ Anselm L Strauss and Juliet M Corbin, *Basics of Qualitative Research: Grounded Theory Procedures and Techniques* (Sage Publications, 1990).

⁸⁶⁴ Glaser, above n 656.

⁸⁶⁵ Helen Heath and Sarah Cowley, 'Developing a Grounded Theory Approach: a Comparison of Glaser and Strauss' (2004) 41(2) *International Journal of Nursing Studies* 141.

⁸⁶⁶ Charmaz, above n 128.

⁸⁶⁷ Yarwood-Ross and Jack, above n 150.

⁸⁶⁸ Dunne, above n 138.

⁸⁶⁹ Glaser and Strauss, above n 133.

⁸⁷⁰ Dunne, above n 138.

⁸⁷¹ Barney G Glaser, *Doing Grounded Theory: Issues and Discussions* (Sociology Press, 1998).

⁸⁷² Yarwood-Ross and Jack, above n 150.

⁸⁷³ Glaser, above n 656.

subject and therefore has few preconceptions about it.⁸⁷⁴ Delaying a literature review is therefore an attempt to prevent contamination, by the literature, of the emergence of categories from data.⁸⁷⁵ In other words, this lets the data speak rather than attempting to 'shoehorn it into a theory that already exists.'⁸⁷⁶

This assertion, however, is often problematic in a practical sense because preparing a literature review is often a prerequisite during the preparation of a research proposal. It also is a way to demonstrate that the researcher knows what needs to be done during the research project even if the details are still vague at this stage.⁸⁷⁷ Also, the literature can be used to 'frame the problem in the introduction to the study'.⁸⁷⁸ It can also be useful as a way to rationalise the research question and position the study within the literature.⁸⁷⁹ Thus, a preliminary literature research is essential.⁸⁸⁰

Strauss and Corbin take a rather different view to Glaser. They believe that it is difficult to completely set aside the existing literature as researchers quite often bring their own background professional and disciplinary knowledge.⁸⁸¹ Thus, a preliminary analysis of literature is encouraged, although generally there is no need to conduct a comprehensive review.⁸⁸² The latter can be done once the theory is fully formulated; the literature can then be integrated into the discussion chapter.

They further consider that as a study progresses, the researchers can use the literature to help stimulate their thinking as 'insight into data does not occur haphazardly'. It can also help them 'pick up on relevant issues, events and happenings during collection and analysis of data'.⁸⁸³ The literature, therefore, can be used as a secondary data source,⁸⁸⁴ to enhance theory development and validate findings and to show that the theory provides support or

⁸⁷⁴ Yarwood-Ross and Jack, above n 150.

⁸⁷⁵ Glaser and Strauss, above n 133.

⁸⁷⁶ Cathy Urquhart, *Grounded Theory for Qualitative Research: a Practical Guide* (SAGE Publications, Inc, 2013).

⁸⁷⁷ McCallin, above n 163.

⁸⁷⁸ Creswell and Creswell, above n 495.

⁸⁷⁹ Creswell and Poth, above n 140.

⁸⁸⁰ McCallin, above n 163.

⁸⁸¹ Corbin and Strauss, above n 126.

⁸⁸² Yarwood-Ross and Jack, above n 867.

⁸⁸³ Corbin and Strauss, above n 126.

⁸⁸⁴ Yarwood-Ross and Jack, above n 150.

changes the existing theories.⁸⁸⁵ However, these authors caution researchers against imposing their own ideas on the data. Instead, the data should talk 'through the eyes of the researcher' and researchers should treat any existing theories with scepticism and scrutinise them in light of the researcher's own data.⁸⁸⁶

Similarly, Charmaz takes the position that the existing literature should be seen as problematic, and researchers should remain alert about whether, when and to what extent these concepts enter into the research; when they do, they should be subject to scrutiny.⁸⁸⁷ She also shares Corbin and Strauss's view that researchers normally have their own knowledge and perspective before embarking on a study. The literature should be used in such a way that it does not 'strangle the theory'.⁸⁸⁸ Hence, researchers should maintain their commitment to prioritising the data.⁸⁸⁹

This thesis is mainly consistent with the Glaserian approach. In this case, the researcher acknowledges that he had been part of the DGT for more than a decade. As such, he has a long history of experience and knowledge of the topic being studied. It was difficult to simply disregard this fact during the research. As a way to approach the study with an open mind rather than an empty head,⁸⁹⁰ the researcher therefore made the decision to use his existing experience and knowledge as a guide to pinpoint key concepts and carefully compare these with the research participants' accounts.

Early in the research proposal preparation, a focussed literature review on the Indonesian tax administration reform was conducted to sharpen the focus of the study and formulate the research questions. Throughout data analysis, the literature was used to help understand the participants' account, validate the findings and improve the overall rigour of the study. This was also the time to link this study with previous studies. At a later stage of the study, when the theory was fully developed, a more comprehensive literature review was conducted. This largely was aimed at affirming the gaps in the extant literature and specifying

⁸⁸⁵ McCallin, above n 163.

⁸⁸⁶ Corbin and Strauss, above n 126.

⁸⁸⁷ Charmaz, above n 128.

⁸⁸⁸ Ibid.

⁸⁸⁹ Rodrigo Ramalho et al, 'Literature Review and Constructivist Grounded Theory Methodology' (2015) 16(3) *Forum Qualitative Sozialforschung/Forum: Qualitative Social Research*.

⁸⁹⁰ Dey, above n 156.

how this thesis fills these gaps. This approach clarified the contribution made by this thesis and placed it within the larger context of the literature.

III CONTRIBUTIONS

A Contributions to Knowledge

Chapter II concludes that the literature on tax administration and tax revenue collection mainly focusses on the taxpayers' side. How tax administration is managed, and thereby internally focussed, is relatively unexplored in the contemporary literature.

This research endeavoured to fill this gap by exploring participants' views on how the DGT should be managed. The resulting frameworks presented in Chapter V and Chapter VI are based on careful analysis of data and are data grounded and verified using the existing literature. This opens up the possibility of using the principles outlined in this thesis, which are largely derived from the situation at the DGT, in different settings.

In the following sections, the core principles described in detail in Chapter V and Chapter VI are summarised. Section A.1 summarises the findings discussed in detail in Chapter V. As such, this section provides answers to sub question 1 (see Chapter I, Section III). Afterwards, in Section A.2, the findings outlined in Section A.1 are used as a starting point from which the current situation at the DGT is examined. This section generally summarises the findings discussed at length in Chapter VI. It thus sheds light on the research concerns formulated as sub question 2 and sub question 3 in Chapter I.

Together, the following two sections offer an answer to the overall research question: that, by learning from the management of the pilot offices, further improvements can indeed be made to the internal management of current Indonesian tax administration, particularly in human resource management. For this purpose, the gap model developed in Chapter VI can be used as a guide. These improvements would undoubtedly be useful for the DGT in their attempts to optimise tax revenue collection in Indonesia.

1 The Concept of Militancy

Chapter V starts with an overview of the tax administration reform pilot project initiated by the IMF. The project in essence dealt with efforts to improve Indonesian tax administration as a way to optimise tax revenue. The main feature of that reform programme was the implementation of taxpayer-focussed tax administration. This resulted in the introduction of a

function-based organisation, as opposed to the type-of-tax organisation applied at that time in Indonesia—an AR role and service-oriented approach.

At the end of the project, it was revealed that the tax revenue of the tax offices that were part of that project was significantly higher than that for the rest of the tax office outside the project. It was revealed, as detailed in Chapter V, that this success was mainly the result of the intention to change, of the tax officers who joined that project. It should be noted that the tax administration reform pilot project took place at a time when corruption was rampant at the DGT. As the pilot project adhered to a strict code of conduct, it became a sanctuary for tax officers who were not comfortable with the corrupt situation surrounding the tax office at that time. These officers, in Darus's words, were *militant*. However, most stayed silent for fear of being alienated. In this thesis, this is covered under the *non-operative militancy* category. The ability to select tax officers with these attributes was a crucial step during the early part of the pilot project. These officers, according to Bunali, later became the driving force behind the success of the project.

Once these officers were recruited and became part of the pilot project, the key issue was how to maintain and improve their attitudes. This was outlined in the discussion of the second category referred to as *internal factors*. In this case, the supervisor role was critical, for instance, by being a *caring* person or *setting a good example*, as admitted by Darus. A caring and exemplary supervisor was essential for forming a *positive working environment*, a situation that later fostered *innovation, togetherness* and *teamwork*. This was made possible when the supervisors in the pilot project were willing to *remove barriers* often seen in traditional bureaucracy in Indonesia. This instilled *cohesiveness* as a result of teamwork and togetherness, which was important in improving *knowledge exchange* and hence stimulated *innovation*. These factors, collectively named *internal factors*, improved staff morale and performance.

Also important in this case was the *external intervention* of the IMF. This intervention acted as a catalyst (by facilitating, and providing time and opportunity) for the transformation to take place. This helped improve the performance of the project further. However, without the self-awareness to change (discussed under the *non-operative militancy* category), the IMF's intervention would not have been sufficient.

Chapter V concludes with a core theme named *the soul of reform*. Under this core theme, it is discussed that generally people carry out a certain behaviour if they are confident that the behaviour will result in a valuable outcome (attitude); other people they consider

important will likely approve the behaviour (subjective norm); and they are capable (perceived behavioural control) and have the necessary resources (actual behavioural control) to perform the behaviour (Figure V.2).⁸⁹¹

The common practice at the DGT when the pilot project was initiated made it difficult for those wishing to abstain from corrupt practices. There was pressure to engage in corrupt practices, particularly for staff in technical units. Further, there was fear of undesirable consequences such as being transferred to a remote location or being singled out, if one resisted that pressure (Figure V.3).⁸⁹²

The pilot project offered a different environment. Officials in that project felt less pressure to engage in corruption. This improved their belief that change was possible. External intervention from the IMF, and positive internal factors—such as supportive supervisors, a better reward and punishment system and a positive working environment—provided the resources for the change to take place (Figure V.4). These factors are collectively referred to in this thesis as *the soul of reform*.⁸⁹³

The next section summarises the concepts explained in detail in Chapter VI and presents the theoretical contributions of this thesis.

2 The Gaps

Generally, the results described in Chapter VI are built on the principles outlined in Chapter V. Using the results discussed in Chapter V, as summarised in the previous section, Chapter VI analyses the current administration of the DGT and compares it with the core principles outlined in Chapter V. The results of this comparison are illustrated in the form of gaps at various levels and affect the performance of tax officials and ultimately, the overall performance of the DGT. This section discusses how this happens. For this purpose, it is useful to consider the evolution of workplaces over time.

⁸⁹¹ Ajzen, above n 751.

⁸⁹² Widoyoko, above n 680.

⁸⁹³ This terminology is used by Darus during one of the interviews in this study, in his critique towards the reform that started in 2002. He believed that while that reform was able to establish a new type of tax office based on the administration system derived from the pilot project, it did not, however, have the key factor that he witnessed during the pilot project. He called this missing factor 'the soul of reform'.

Thomas explains that changes in the workplace have taken place in several stages.⁸⁹⁴ Up until the 1970s, workers' roles generally could be viewed in terms of compliance. Driven by the requirement at that time to create standardised products, workers were required to adhere to detailed rule books. Hierarchies and top-down, close supervision were put in place to ensure that those rules were adhered to. Tasks were simplified, which meant that training costs and workers' compensation were minimal as the tasks they needed to do were simple. This practice is referred to as compliance-focussed management.

This approach, however, tends to fail to make a person motivated. To address this issue, monetary compensation generally is given. Closer supervision is required to ensure that the correct persons to be compensated can be identified and financially rewarded accordingly. As a result, organisations are often only concerned with buying their employees' behaviour rather than their commitment, passion and initiative. Therefore, if a person decides to stay in an organisation, this is largely because of the amount of compensation they receive, rather than the work itself. In other words, this environment gives extrinsic rewards high importance. The downside of this approach is that with the limited financial capacity currently faced by many institutions, along with the desire to simplify tasks, an organisation's ability to provide extrinsic rewards is certainly limited.

At the beginning of the twenty-first century, advances in telecommunication technology brought significant change, most evidently the rapid pace of globalisation. Firms are now faced with more intense global competition. As such, a more rapid response to customers' demands is essential. There is a move from standardised to more customised products suiting customers' demands, particularly in the service industries. This puts pressure on firms to allow their employees to make more judgments, innovate and be problem solvers. Thus, most low-skilled jobs are either outsourced or becoming automated. A tall hierarchy and close supervision, which basically limits an organisation's ability to make a quick response, are beginning to be a practice of the past. As a result, motivating employees becomes essential to keep them engaged in their work. The literature recognises that energetic, passionate and creative employees are significant for an organisation in accomplishing its endeavours.⁸⁹⁵ As a

⁸⁹⁴ Kenneth Wayne Thomas, *Intrinsic Motivation at Work: What Really Drives Employee Engagement* (Berrett-Koehler Publishers, 2nd ed, 2009).

⁸⁹⁵ William H. Macey and Benjamin Schneider, 'The Meaning of Employee Engagement' (2008) 1(1) *Industrial and Organizational Psychology* 3.

result, encouraging and motivating employees with such attributes is essential to improve their productivity.⁸⁹⁶

For this reason, it is argued that in today's environment, intrinsic rewards that come directly from the work itself are considered more important.⁸⁹⁷ The idea of using intrinsic rewards to motivate employees as raised by Thomas is not new. Herzberg for instance, argues that intrinsic factors such as recognition or achievement are essential to improve job satisfaction.⁸⁹⁸ As such, according to Porter and Lawler, jobs should be made more interesting and therefore, more intrinsically rewarding.⁸⁹⁹ Inherent in the concept of intrinsic rewards is the requirement for an employee to be self-managed. This means that an employee needs to commit to a purpose, such as providing an ultimate service to a taxpayer, and then choose and perform whatever tasks are required to fulfil that purpose. This is what is referred to as *self-management* (Figure VII.1).⁹⁰⁰

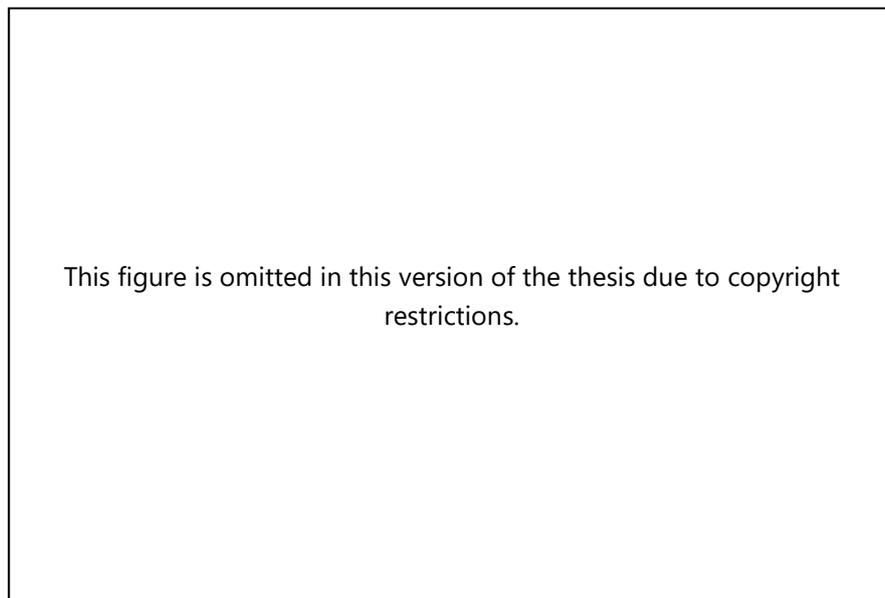


Figure VII.1 Self-management⁹⁰¹

⁸⁹⁶ Nikhil K Mehta and Upasna A Agarwal, 'Hari Sadu Versus Subordinates: An Analysis of the Interpersonal Dynamics at the Workplace' (2017) 11(2) *IUP Journal of Soft Skills* 35.

⁸⁹⁷ Thomas, above n 894.

⁸⁹⁸ Frederick Herzberg, Bernard Mausner and Barbara Bloch Snyderman, *The Motivation to Work* (John Wiley & Sons, 2nd ed, 1959).

⁸⁹⁹ Lyman W. Porter and Edward E. Lawler, *Managerial Attitudes and Performance* (Irwin-Dorsey, 1968).

⁹⁰⁰ Thomas, above n 894.

⁹⁰¹ *Ibid.*

Under this concept, if a tax officer has a meeting with a taxpayer, what that officer aims to achieve is serving that taxpayer better, rather than completing tasks outlined in SOPs. If the steps outlined in a SOP are considered insufficient to serve that taxpayer, the tax officer would be willing to *go the extra mile* to perform additional tasks not contained in the SOP. If the results satisfy that officer, their judgments are positive. This is because that officer believes that they have a purpose of value (meaningfulness), are using a set of correct tasks (choice) that are performed well, are satisfying the required standards (competence) and ultimately, achieving something that is closer to the purpose they are aiming to accomplish (progress). Collectively, these factors comprise *intrinsic rewards* (Figure VII.2).

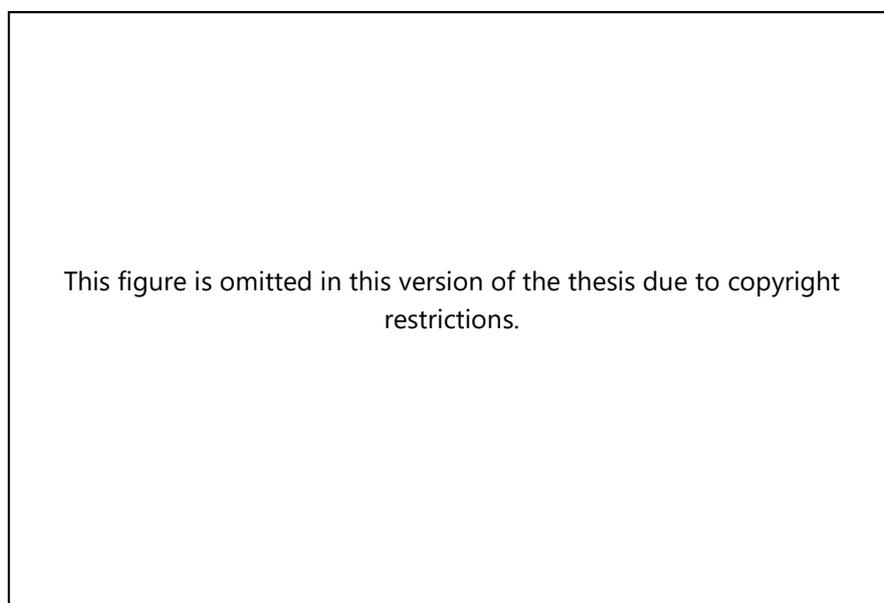


Figure VII.2 Intrinsic rewards⁹⁰²

These intrinsic rewards are linked to self-management events. An employee who engages in self-management basically uses judgment in accomplishing the tasks they see as suitable to achieve their purpose. Once the purpose is achieved, they feel a certain intrinsic reward as a result. As an example, a tax officer who engages with a taxpayer commits to the purpose of serving that taxpayer better. Thus, the officer has accomplished a sense of being meaningful to others. This is the reward that he enjoys. Such a positive feeling, in turn, creates *energy* that further reinforces self-management (Figure VII.3).

⁹⁰² Ibid.

This figure is omitted in this version of the thesis due to copyright restrictions.

Figure VII.3 The interaction between self-management and intrinsic rewards⁹⁰³

It is possible for a person to engage in self-management but then not obtain the intrinsic rewards that the person deserves, thereby causing an *energy leak*. This leak decreases the ability of intrinsic rewards to reinforce self-management events. The gaps outlined in Section IV in essence provide examples of when this leak occurs (Figure VII.4).

⁹⁰³ Ibid.

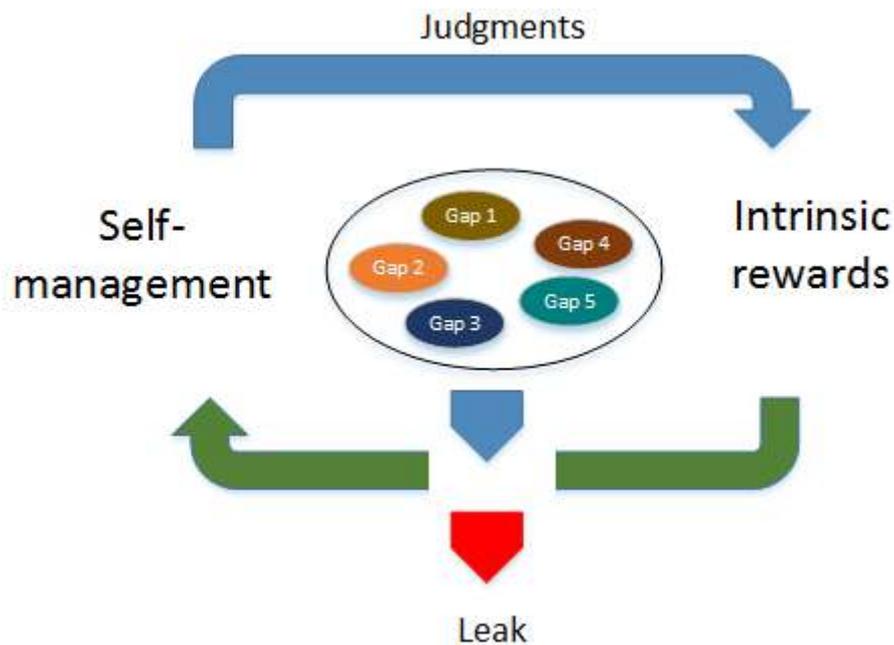


Figure VII.4 The leak

In Gap 1 for instance, Uti illustrated that what is lacking at the moment is a person who can inspire; in fact, being able to inspire is one of the important attributes required to instil a sense of meaningfulness. In contrast, during the tax administration reform project, employees who were involved in that project were mostly able to see their immediate supervisors as role models as they saw them largely as *exemplary* and *caring*.⁹⁰⁴

A similar case can be seen with Gap 2. Uti described an example where she began to lose confidence in her supervisor's skills as she found that her supervisor was unable to provide meaningful feedback on her work. The fact is, under self-management, employees must be given an opportunity to assess their performance as part of competence monitoring so that they can make adjustments whenever possible. Uti's inability to obtain feedback from her supervisor undermined her sense of competence. This in turn may have weakened her self-management efforts. Although it has been suggested that personal feedback may boost employees' morale and improve their performance,⁹⁰⁵ it seems that, from Uti's experience, that this is where the DGT may perhaps be lacking at the time when the interview was conducted in 2015.

⁹⁰⁴ Prasetyo, above n 860.

⁹⁰⁵ Adiza Musah, Ghazali Zulkipli and Nizam Ahmad, 'Relationship between Organizational Communication and Job Satisfaction in Temporary Work Environment: An Empirical Study of Plant Turnaround Workers' (2017) 9(1s) *Global Business and Management Research* 73.

Gap 3 may also weaken the self-management of an employee. A case raised by Rosa provides an example. In Section IV, Rosa raised an issue where employees who have been trained in one section of the tax office were transferred to a different section, which highlighted her observation that the skill of a supervisor to coach and mentor at the DGT might be limited. This lack of coaching skill may limit the ability of supervisors to equip their subordinates with the necessary skills to accomplish required tasks. In turn, this could weaken the self-management of that employee and thereby undermine their performance. Not only that, such staff transfers may be a source of what Pondy describes as latent conflict, referring to a condition where there is potential for a conflict to occur, as there is competition for resources (in this case, successfully trained employees).⁹⁰⁶ This may even result in organisational dysfunction.⁹⁰⁷ During the reform pilot project, this problem seemed to be non-existent, possibly because of the sufficient training and knowledge-sharing sessions made available at that time.⁹⁰⁸

Gap 4 can cause an energy leak that undermines an employee's self-management as well. This can be seen for instance in a case described by Juna. This case related to a colleague who spent most of his time at home taking care of his pet. This person quite possibly had lost his interest in committing to the purpose of working at the tax office. As such, he no longer obtained the intrinsic reward of having done something meaningful at work, thereby decreasing the energy that reinforces the self-management process.

The next gap (Gap 5) is essentially about communication between supervisors and their subordinates. Communication can be seen as an exchange of information and the transmission of meaning,⁹⁰⁹ which is crucial in an organisation as it is the main medium for human interaction⁹¹⁰ and a tool to convey organisational effectiveness.⁹¹¹ It is important as a way to transfer information and to foster and sustain healthy work relationships.⁹¹² Such information

⁹⁰⁶ Louis R. Pondy, 'Organizational Conflict: Concepts and Models' (1967) 12(2) *Administrative Science Quarterly* 296.

⁹⁰⁷ Jacek Pasieczny and Beata Glinka, 'Organizational Dysfunctions: Sources and Areas' (2016) 4 213.

⁹⁰⁸ Prasetyo, above n 860.

⁹⁰⁹ Daniel Katz and Robert L. Kahn, *The Social Psychology of Organizations* (Wiley, 1966).

⁹¹⁰ William G. Scott and Terence R. Mitchell, *Organization Theory: a Structural and Behavioral Analysis* (R. D. Irwin, Revised ed, 1972).

⁹¹¹ John B. Bush and Alan L. Frohman, 'Communication in a "Network" Organization' (1991) 20(2) *Organizational Dynamics* 23.

⁹¹² Orlagh Hunt, Dennis Tourish and Owen D.W. Hargie, 'The Communication Experiences of Education Managers: Identifying Strengths, Weaknesses and Critical Incidents' (2000) 14(3) *International Journal of Educational Management* 120.

sharing could in turn nurture interpersonal relationships between subordinates and their supervisors.⁹¹³ Further, a positive work outcome, such as improved performance or increased effort, can be achieved if employees are subjected to better communication strategies.⁹¹⁴

Given the importance of communication as suggested in the literature cited above, this is an area of significance in an organisation such as the DGT. However, it is unfortunate that the DGT seems to be lacking in this respect, identified as Gap 5 in this research. The poor communication style illustrated in Chapter VI may, thus, weaken self-management efforts required to be engaged by tax officials. Such ineffective communication may cause misunderstandings and lead to low motivation in an organisation,⁹¹⁵ which apparently is the case here. In contrast, the pilot project did not seem to suffer these shortcomings as supervisors in that project were able to have close relationships with their subordinates. This was mainly because of their willingness to reduce hierarchical boundaries.⁹¹⁶ This thesis proposes that if these gaps can be reduced, the DGT may be one step closer to meeting its revenue targets. The following section provides a summary of the practical contributions of this thesis.

B Contributions to Practice

In noting the practical contribution, it is useful to acknowledge the observation of one of the research participants named Ed. Ed believes that to improve its revenue performance, the DGT needs to deal with three distinct aspects: database, human resources, and legal framework. Although he is currently involved in a team that aims to improve the DGT's database, in Ed's view, the other two factors are as important.

In this context, this thesis attempts to contribute in the human resources aspect. For this purpose, a concise summary of the main themes reported in this thesis—which were discussed in great detail in Chapter V and Chapter VI—is presented in this section. For convenience, these themes are reproduced in Table VII.1.

⁹¹³ Edward E. Lawler and Susan A. Mohrman, 'With HR Help, All Managers Can Practice High-Involvement Management' (1989) 66(4) *Personnel* 26.

⁹¹⁴ Judy Gray and Heather Laidlaw, 'Part-time Employment and Communication Satisfaction in an Australian Retail Organisation' (2002) 24(2) *Employee Relations* 211.

⁹¹⁵ Pasieczny and Glinka, above n 907.

⁹¹⁶ Prasetyo, above n 860.

Table VII.1 List of concepts formulated from participants' accounts

Category	Description
Category 1: non-operative militancy	
This concept describes that the intention to desist from corrupt practice already existed within the tax office, although it was politically suppressed.	
Category 2: internal factors	
Reward	
Pay rise	This theme describes increased wages as compensation for observing the strict code of conduct and adopting a taxpayer-oriented approach at pilot offices.
Further education	This theme talks about various opportunities provided at pilot offices, organised either formally or informally.
Thorough examination of the penalty system	
This concept describes that penalties are imposed only after a thorough investigation of the situations surrounding the alleged breach.	
Supportive supervisor	
Being exemplary	This theme describes a situation where supervisors at pilot offices helped their subordinates achieve favourable working conditions.
Caring	This theme describes a situation at pilot offices where supervisors provided a caring environment for their subordinates.
Positive working environment	
Togetherness	This theme emphasises the willingness of supervisors at pilot offices to remove barriers that traditionally separated them from their subordinates.
Teamwork	This theme illustrates the importance of teamwork at pilot offices and the way this was maintained.
Considerate closeness	This theme provides a description of the close supervisor-subordinate relationship at pilot offices but with each maintaining a certain safe distance.
Spirituality and religiosity	This theme underlines the importance of religiosity to improve tax officers' working conditions.
Category 3: internal gaps	
Expectation Gap A: staff expectations	
Gap 1	The discrepancy between the expectations of staff about their supervisor's behaviour and the behaviour that they actually observe on a daily basis.
Gap 2	The DGT's difficulties in delivering supervisors whose ability meets staff expectations.
Gap 3	Whether behaviour expected to feature in a supervisor could be seen in reality.
Expectation Gap B: supervisor expectations	
Gap 4	Supervisor expectations about staff's actual behaviour.
Communication gap	
Gap 5	How the DGT communicates with its employees.
Category 4: external gap	
Gap 6	The discrepancy between taxpayer expectations for DGT performance and the performance that they observed.

Table VII.1 provides a list of factors that need to be taken into account in the current administration of the DGT. The first two categories—identified as important by participants from the pilot offices—provide a set of key attributes that were seen as essential for the success of the pilot offices. Category 1, which explains the ability to recruit sincere officers, was particularly important. This is because it enabled pilot offices to recruit tax officers of high integrity who later became the driving force in those offices.

The second category is necessary to transform and maintain the condition of newly recruited tax officers from silent militancy into professional officers who were willing to do more than simply 'follow the job description'. Most of these factors required supervisors to be supportive to provide a positive working environment and ensure that rewards and penalties were applied in a fair manner. The positive working environment particularly was of importance as this was an environment where knowledge sharing and innovation could take place. This ensured the productivity of the officers and consequently, the pilot offices. It is also important to note that supervisors who were able to show exemplary actions often inspired their subordinates, particularly because the Indonesian culture of bureaucracy often puts subordinates in a position to look up to their supervisors. This is noted in category 4 as the influence of peers.

This situation was ultimately able to transform potentially sincere officers into sincere officers in reality. This is what Gladwell sees as the tipping point, referring to a point in time where a particular social behaviour reaches and then crosses a certain threshold and then rapidly spreads across an organisation.⁹¹⁷ The tax officials at the pilot offices had become what Gladwell refers to as 'mavens' who owned the knowledge (possibly obtained from their tacit knowledge or training); 'connectors' because of their efforts deliberately aimed at removing social boundaries at the pilot offices, or 'salesmen' who convinced their peers about the reasons to change at the pilot offices.

The next two categories, in turn, present aspects that need to be considered by the current tax administration. Category 3 in this regard is of the utmost importance. This category represents gaps that prevent tax officers from performing optimally. Presented as a series of gaps, category 3 illustrates pitfalls that are now present and therefore need to be addressed. This includes unmet staff expectations, unmet supervisor expectations and poor

⁹¹⁷ Malcolm Gladwell, *The Tipping Point: How Little Things Can Make a Big Difference* (Back Bay Books, 1st ed, 2002).

communication style. Externally, the way the DGT views their taxpayers may also need to be improved. It is important for taxpayers to feel that the tax office's presence is meaningful. Fulfilling this is nevertheless not an easy task as it requires tax officers to go beyond their job descriptions. For this to occur, it is essential to have staff who are willing to *go the extra mile*. This, again, shows the importance of having militant tax officers who work in a positive working environment, as identified in category 1 and category 2. These gaps, particularly internal gaps, may lead to unhappy employees and unhappy employees are quite often not motivated to fully engage with their professional work for long periods,⁹¹⁸ making the job of optimising tax revenue more difficult.

IV FUTURE DIRECTIONS

Considering the results and the contributions made by this research, there are a number of significant future research opportunities under this topic.

A Building on the Findings

It is apparent in this research that having staff members with a higher degree of militancy is essential in the Indonesian tax office context. Exploring the mechanics of how to select and subsequently recruit such staff members is certainly beyond the scope of this thesis. This thesis, however, has identified several factors considered important in maintaining this sense of militancy. The differences between the application of these factors and their idealised versions are illustrated as gaps in this thesis. It is important to examine how these gaps evolve over time. For this purpose, a set of questionnaires may be constructed with the aim of quantifying the magnitude of those gaps so that a time-series, within-institution comparison can be quantitatively undertaken.

B Applications in Different Settings

Another immediate application of this thesis is examining the applicability of the findings presented in this thesis to different contexts. This is because these core principles may have immediate applications in different settings. It is for this purpose that the questionnaires touched upon in the previous section may be of importance. This would enable inter-institution comparison of gaps to be implemented. Decision makers could use the results of such a comparison as part of toolkit that can be used to assess their own situation. This would

⁹¹⁸ Andrzej A. Huczynski and David A. Buchanan, *Organizational Behaviour* (Harlow, England Pearson, 8th edition.. ed, 2013).

enable them to make informed decisions because both within- and between-institution comparisons could be made.

V LIMITATIONS

The conclusion outlined in this chapter (particularly Section III) should be interpreted with regard to several limitations of the research. First, data were collected mainly from interviews, and thus, rely on the participants' memory. As the project concerns events that took place more than a decade ago, it is possible that some events were missed or forgotten. Some participants may even pretend that they know or remember the events clearly.⁹¹⁹ The fact that the participants' memories might be inaccurate should be considered, although this is addressed in this thesis by corroborating a participant's account with that of another (Figure IV.10).

Second, this research involved only a small number of participants because of difficulties in finding willing individuals. While these participants were of diverse backgrounds, the research would undoubtedly have benefitted from additional participants, particularly for exploring more sensitive issues such as corruption and penalties.

Third, the research was based on self-reported data. Hence, it is possible that a participant may have described events that did not happen. Although the researcher limited this effect by cross-referencing participants' accounts with those of other participants, it might have had a negative effect on the overall study.

Last, the researcher knew most of the participants personally. Although according to Homans, as cited by Field and Morse, this can improve the accuracy of the researcher's interpretation of the situation being studied, care must be taken to minimise the researcher's subjectivity.⁹²⁰ To deal with this issue, the researcher interpreted what the participants said and then checked his interpretation with the literature. This process linked the research with more general concepts available in the literature.⁹²¹ However, as the findings also contain the

⁹¹⁹ Martin Davies and Nathan Hughes, *Doing A Successful Research Project: Using Qualitative or Quantitative Methods* (Palgrave Macmillan, Second Edition ed, 2014).

⁹²⁰ Peggy Anne Field and Janice M Morse, *Nursing Research: The Application of Qualitative Approaches* (Aspen Publishers, Inc, 1985) 118.

⁹²¹ Joy L. Johnson, 'Generalizability in Qualitative Research: Excavating the Discourse' in Janice M. Morse (ed), *Completing a Qualitative Project: Details and Dialogue* (SAGE Publications, 1997) 191.

researcher's views,⁹²² this study only offers one of many possible interpretations. As such, it would be possible for another researcher to formulate a different conclusion based on the same data, which seems a notable attribute of qualitative studies.⁹²³ As a consequence, generalisation of the findings in a statistical sense could be problematic.

It is however important to note that the researcher was familiar with the situation being studied because of his previous employment at the DGT. As a result, he had an inside knowledge and experience on the situation at the DGT. Such an experience was particularly useful as a safeguard to check the emerging theories against.⁹²⁴

In spite of this, this research opens up several routes for further investigation. First, it would be interesting to examine how the findings outlined in this thesis are put into practice in tax administration currently practised in Indonesia. Second, one can examine the applicability of these results in other institutions as well, as the core principles outlined in this research could arguably find immediate applications in different settings.

VI CONCLUDING THOUGHTS

Bird and Oldman—quoted by James—note that a successful tax reform is one that takes into account 'a good dose of local knowledge'.⁹²⁵ Therefore, a successful tax reform is likely to be one that is—in Bird's words—'built-to-order in accordance with the customer's needs and specifications'.⁹²⁶ This indicates that one of the key issues in a tax reform is identifying specific local factors—which differ from one region to another—that might be essential for that reform to succeed. This thesis is an attempt to achieve this in an Indonesian context. It starts with the ability of the DGT to transform itself from one of the most corrupt public offices in Indonesia⁹²⁷ into a less corrupt institution.⁹²⁸ This change began with a tax administration reform pilot project almost two decades ago. That project proved able to

⁹²² Merry-Jo D Levers, 'Philosophical Paradigms, Grounded Theory, and Perspectives on Emergence' (2013) 3(4) SAGE Open 1.

⁹²³ Corbin and Strauss, above n 881.

⁹²⁴ George Caspar Homans, *The Human Group* (Harcourt, Brace & World, Inc., 1950), 14.

⁹²⁵ James, above n 323, 30.

⁹²⁶ Richard Bird, 'Taxation and Development: What Have We Learned from Fifty Years of Research?' (2012) April *ICTD Working Paper 1*.

⁹²⁷ Mudrajad Kuncoro, 'Mafia Pajak dan Kegagalan Reformasi Birokrasi', *Kompas* (Jakarta), 12 March 2012 <<http://cetak.kompas.com/read/2012/03/12/02314936/Mafia.Pajak.dan.Kegagalan.Reformasi.Birokrasi>>.

⁹²⁸ Transparency International Indonesia, *Global Corruption Barometer 2017 (Indonesia)* <<http://docplayer.info/49127017-Global-corruption-barometer-2017.html>>.

produce several tax offices of high integrity—upon which the current Indonesian tax administration system is based—in the midst of corrupt institutions. This thesis reveals part of the nature of this success by identifying key factors behind that story.

The second part of this study examined how these factors are applied in the period of up to 2015 when data collection for this thesis took place. Here, it was identified that there was evidence for several internal gaps between how these factors are applied and how they are desired to be applied. These gaps consist of a staff expectations gap, a supervisor expectations gap and a communication gap. These gaps may have prevented the optimal performance of tax officials by undermining their militancy. Such reduced militancy might have influence on how tax officials deal with taxpayers on a daily basis, causing the external gap to widen.

This thesis presents the complex relationships among these factors. It suggests that to optimise staff members' performance and maximise revenue collection, it is critical that these core factors—particularly the gaps—are continuously assessed. It is generally accepted within the DGT that by increasing staff members' financial rewards, an increase in their performance can be expected. This thesis reveals that this may not always be the case. In fact, participants rarely mentioned financial reward as a key factor. Instead, they referred to more fundamental aspects such as their supervisor's ability to be caring or be a model of behaviour. This is probably one of the main messages to take from this thesis. This message is empirically grounded in the data and at the same time is validated by the current literature. This signifies a contribution to a practical application within the DGT and, possibly, other institutions as well.

Because of the emphasis of the approach taken in this thesis on the participants' narratives, it seems suitable to conclude this thesis with a quote from a participant. In the first interview, Darus talked about how he was tempted by one of his auditors to approve an idea for obtaining illicit money from taxpayers. Despite the hostility that Darus faced, both from within the tax office and from taxpayers, he refused to go along with the request. This is the attribute of being exemplary, a concept that unfortunately is becoming rare nowadays at the DGT:

Some said that the tax office had changed or, on the contrary, some may see it as a thorn in one's side, so to speak. Seen as not being together with others. Between quotes, of course. So I'd say that it was not ... not ... not ... what do you call it? It was not an easy journey. Even two or three years later [after the pilot office was officially

established], people started to cast doubt; because perhaps they saw their colleagues were still doing that [corruption], meanwhile we were not. Whereas 'Mr Darus, we got big fish'. It was how they expressed it.

And then I said to them, 'Now, let me ask you something, just once'.

'It is up to you Sir, just you. Just say the word GO, come on Sir'.

They were open [to me]. And then I asked them.

'In that case, I'll ask you. Have you been feeling like you are making a sacrifice?'

'Absolutely, Sir. We've been fasting for a long time. Never had an Eid celebration' [Eid is a day that Muslims celebrate after completing a one-month fasting period during Ramadhan. This is the time when Muslims are allowed to have meals during the day again. In this quote, fasting is referred to as not taking money from taxpayers, and Eid, therefore, as starting to do it again].

...

I said, 'If you've been making a sacrifice all these years, then you'll only waste it for nothing, on this very day. If you really want to do that, why didn't you do it early on. If I say, that is the sacrifice'.

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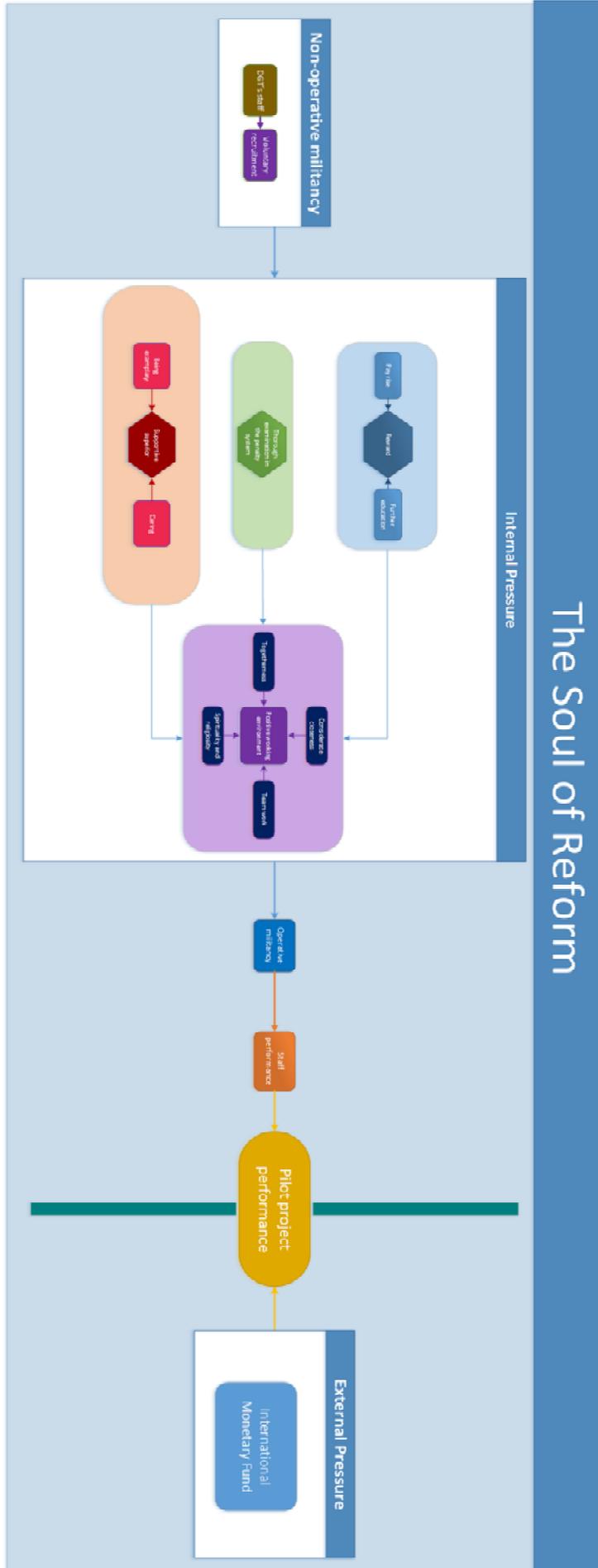
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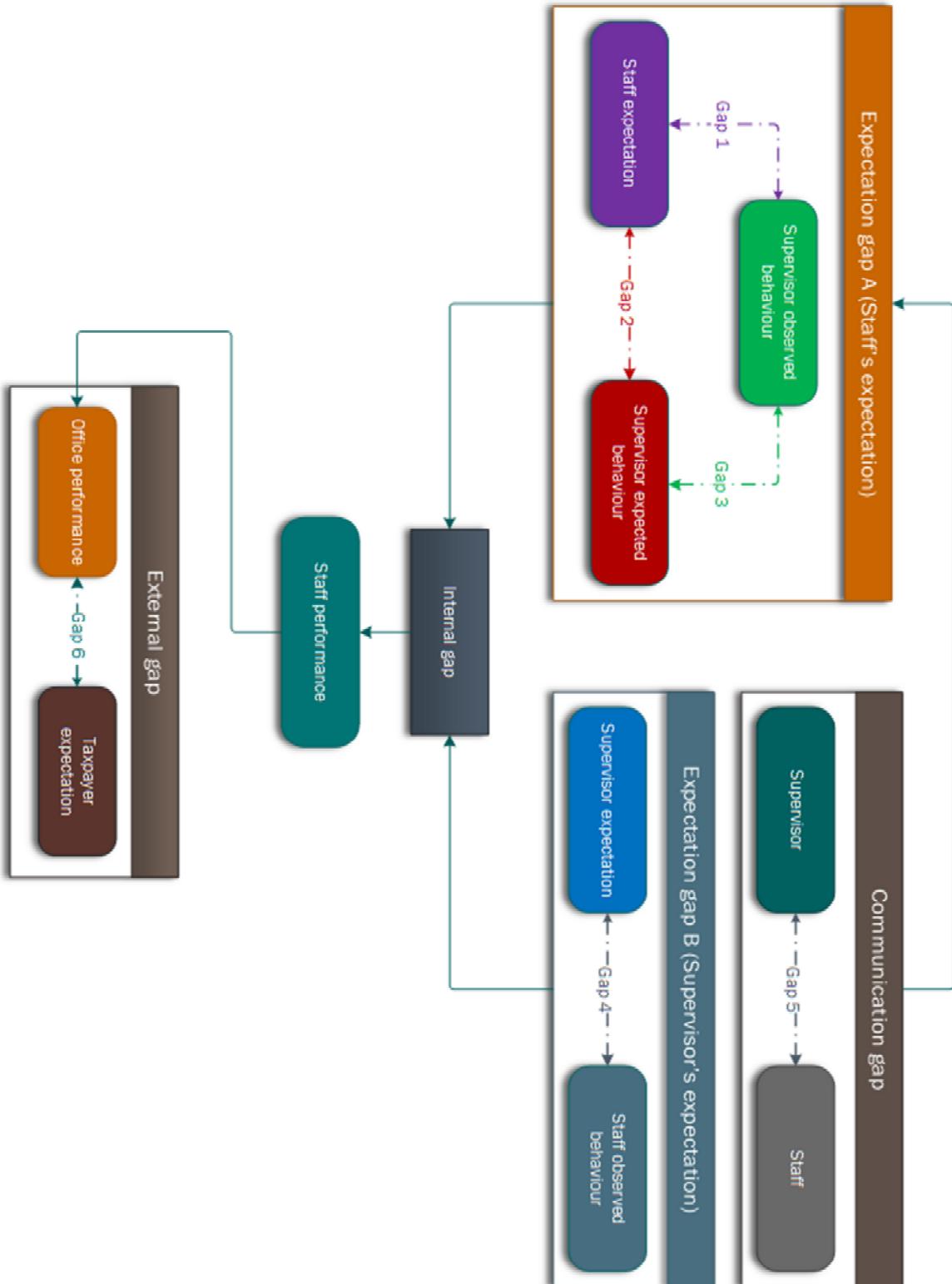
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APPENDICES

APPENDIX I ANALYTICAL CATEGORIES: STAGE I



APPENDIX II ANALYTICAL CATEGORIES: STAGE II



APPENDIX III INITIAL INTERVIEW GUIDE

Interviews will be conducted according to the following plan:

- 1) Establishing rapport.
 - a) Greetings and general introduction.
 - b) Information about the study.
- 2) Participant to sign consent form.
- 3) Topics to be covered in the interview:
 - a) Participant background.
 - i) Role taken in the pilot project.
 - ii) Role taken now.
 - b) During and after pilot project comparison covering the following topics:
 - i) Ensuring voluntary compliance.
 - (1) Taxpayer service.
 - (2) Taxpayer profiling.
 - (3) Taxpayer consultation.
 - (4) Taxpayer education activities.
 - (5) Back office support:
 - (a) General support (transportation, expenses, etc).
 - (b) Knowledge management support.
 - (c) Database and IT support.
 - (d) In-house trainings.
 - ii) Ensuring enforced compliance.
 - (1) Field visits.
 - (2) Special and routine audit activities.
 - (3) Teamwork with different departments.
 - (4) Support and/or protection from higher level management.
 - (5) Support from external parties (police, local government, etc).
 - (6) Back office support:
 - (a) General support (transportation, expenses, etc).
 - (b) Data quality and IT support.
 - (c) Knowledge base support.
 - (d) In-house trainings.
 - iii) Tax office power.
 - (1) Ability to do taxpayer segmentation (eg based on tax mix, taxpayer type, business type, etc).
 - (2) Chosen approach: taxpayer as client or robber.
 - (3) Ability to detect non-compliance.
 - (4) Ability to investigate tax fraud.
 - (5) Ability to collect tax arrears.

**APPENDIX IV PARTICIPANT INFORMATION SHEET AND CONSENT
FORM**

PARTICIPANT INFORMATION STATEMENT

HREC Project Number:	5011
Project Title:	Tax Administration and Compliance in Indonesia
Principal Investigator:	Professor Dale Pinto, Head of Taxation Department, Curtin Law School
Student researcher:	Kristian Agung Prasetyo
Version Number:	1
Version Date:	05/02/2015

What is the Project About?

The tax reform in Indonesia starting in 2000s focused on administration as part of the IMF restructuring program. This reform started as a pilot project by establishing a large taxpayer office in Jakarta. This later was expanded to include medium and small taxpayers and had higher revenue level compared to the rest of the Indonesian tax offices. This led to the nation-wide adoption of the administration principles emerged from the pilot project. The revenue after this nation-wide adoption, however, shows a lower level compared to both the revenue level found in the pilot offices and the pre-reform tax offices.

This research analyses the difference between tax administration in the pilot project and administration as currently applied to identify whether, taking into consideration the lessons learnt from tax administration modernization pilot project, further improvements made to the current administration can significantly increase revenue. It will study the factors causing the high revenue level of the pilot offices. It also explores legal changes that might optimize revenue collection.

This research is important due to the significant contribution of taxes to the national revenue in recent years. On one hand, there is a continuous increase in the Indonesian GDP that at a macro level, signal a growth in tax base. Further, the reformed tax administration that is largely based on the IMF pilot project seems to be successful. Moreover, OECD also recognised Indonesia as having a tax system that is closely aligned with the current best practices. However, there seems to be many obstacles in optimising tax revenue. A number of factors, including the lack of staffs and corruption, have been suggested to contribute to the low revenue collection level although currently, the availability of study on this issue is limited. This research will provide materials for the Indonesian policy makers on this issue. It

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will draw from lessons learnt from the pilot offices, the views of academics, and the tax consultants' position to provide recommendation for improvements.

Participants of this study will be from:

1. Tax officials were involved during the tax modernization pilot project led by the IMF in 2002-2005.
2. Those who work at the policy level at the Indonesian tax office headquarter and at the Fiscal Coordination Agency at the Indonesian Ministry of Finance.
3. Academics from the University of Indonesia and Bogor Institute of Farming.
4. Tax consultants.

From this research, we hope we can determine the factors contributing to the high level of revenue at the pilot office can and explains the difference between the administration at the pilot offices and administration as currently applied at the Indonesian tax office. We also hope to be able to propose improvements in the tax administration legislation.

Who is doing the Research?

The project is being conducted by Kristian Agung Prasetyo and Professor Dale Pinto as the main supervisor with Dr Prafula Pearce as the co-supervisor. The results of this research project will be used by Kristian Agung Prasetyo to obtain a Doctor of Philosophy at Curtin University and is funded by the Australian government through the Australia Awards Scholarship.

Why am I being asked to take part and what will I have to do?

You have been asked to take part because you have the condition we are researching. If you agree to participate, you will be involved in an unstructured interview to describe your experience in working at the pilot projects that led to the modernisation process at the Indonesian tax office. You will also be asked to compare that experience with your working experiencing now at the tax office. The interview will take no more than 90 minutes.

There will be no cost to you for taking part in this research and you will not be paid for taking part. I will provide some souvenirs as a token of appreciation for your willingness to participate in this study.

I will make a digital audio recording so I can concentrate on what you have to say and not distract myself with taking notes. After the interview, I will make a full written copy of the recording.

Are there any benefits' to being in the research project?

Tax Administration and Compliance in Indonesia

There may be no direct benefit to you from participating in this research. This research however may serve as a channel for you to raise any voice or concerns that you might have. Sometimes, people appreciate the opportunity to discuss their opinions or feelings.

We hope the results of this research will allow us to help the Indonesian tax office to increase their performance and ultimately, add to the knowledge we have about this condition

Are there any risks, side-effects, discomforts or inconveniences from being in the research project?

There are no foreseeable risks from this research project. We have been careful to make sure that the topics to be covered in this interview do not cause you any distress. But, if you feel anxious about any of the questions, you do not need to make any response.

Apart from giving up your time, we do not expect that there will be any risks or inconveniences associated with taking part in this study.

Who will have access to my information?

The information collected in this research will be non-identifiable (anonymous). This means that we do not need to collect individual names and will not include a code number or name. No one, not even the research team will be able to identify your information. Any information we collect and use during this research will be treated as confidential. The following people will have access to the information we collect in this research: the research team and the Curtin University Ethics Committee

Electronic data will be password-protected and hard copy data (including video or audio tapes) will be in locked storage. This information will be kept under secure conditions at Curtin University for 7 years after the research has ended and then it will be destroyed/kept indefinitely. You have the right to access, and request correction of, your information in accordance with relevant privacy laws.

The results of this research may be presented at conferences or published in professional journals. You will not be identified in any results that are published or presented.

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Will you tell me the results of the research?

We will write to you at the end of the research and let you know the results of the research. Results will not be individual but based on all the information we collect and review as part of the research.

Do I have to take part in the research project?

Taking part in a research project is voluntary. It is your choice to take part or not. You do not have to agree if you do not want to. If you decide to take part and then change your mind, that is okay, you can withdraw from the project. You do not have to give us a reason; just tell us that you want to stop. Please let us know you want to stop so we can make sure you are aware of any thing that needs to be done so you can withdraw safely. If you chose not to take part or start and then stop the study, it will not affect your relationship with the University, staff or colleagues. However, if you chose to leave the study, we will be unable to destroy your information because it has been collected in an anonymous way

What happens next and who can I contact about the research?

If you decide to take part in this research we will ask you to sign the consent form. By signing it is telling us that you understand what you have read and what has been discussed. Signing the consent indicates that you agree to be in the research project and have your information used as described. Please take your time and ask any questions you have before you decide what to do. You will be given a copy of this information and the consent form to keep.

If you would like to know more about this study, please feel free to contact:

Supervisor	Co-Supervisor	Researcher
Professor Dale Pinto	Dr Prafula Pearce	Kristian Agung Prasetyo
Department of Taxation	Department of Business Law	Curtin Law School
Law School	Law School	Curtin Business School
Curtin Business School	Curtin Business School	Curtin University
Curtin University	Curtin University	
Email:	Email:	Email:
dale.pinto@cbs.curtin.edu.au	prafula.pearce@curtin.edu.au	Agung.kristian@postgrad.curtin.edu.au

All research in Australia involving humans is reviewed by an independent group of people called a Human Research Ethics Committee (HREC). The ethical aspects of this research project have been approved by the Curtin University HREC. This project will be carried out according to the National Statement on Ethical Conduct in Human Research (2007). If you have any concerns and/or complaints about the project, the way it is being conducted or your rights as a research participant, and would like to speak to someone independent of the project, please contact: The Curtin University Ethics Committee by telephoning 9266 2784 or by emailing hrec@curtin.edu.au.

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CONSENT FORM

HREC Project Number:	5011
Project Title:	Tax Administration and Compliance in Indonesia
Principal Investigator:	Professor Dale Pinto, Head of Taxation Department, Curtin Law School
Student researcher:	Kristian Agung Prasetyo
Version Number:	1
Version Date:	05/02/2015

- I have read the translation in my first language of the information statement version listed above and I understand its contents.
- I believe I understand the purpose, extent and possible risks of my involvement in this project.
- I voluntarily consent to take part in this research project.
- I have had an opportunity to ask questions and I am satisfied with the answers I have received.
- I understand that this project has been approved by Curtin University Human Research Ethics Committee and will be carried out in line with the National Statement on Ethical Conduct in Human Research (2007) – updated March 2014.
- I understand I will receive a copy of this Information Statement and Consent Form.

Participant Name	
Participant Signature	
Date	

Declaration by researcher: I have supplied an Information Letter and Consent Form to the participant who has signed above, and believe that they understand the purpose, extent and possible risks of their involvement in this project.

Researcher Name	Kristian Agung Prasetyo
Researcher Signature	
Date	

APPENDIX V CONFIRMATION OF CANDIDACY

Curtin Business School
Higher Degree by Research Unit

GPO Box U1967
Perth Western Australia 6845

Telephone +61 8 9256 4301
Email cbs-hdr@curtin.edu.au
Web business.curtin.edu.au

25-Feb-2015

Student ID: 13254955

Dear Kristian

RE: CONFIRMATION OF CANDIDACY – Doctor of Philosophy - Business Law

The Faculty Graduate Studies Committee (FGSC) at Curtin Business School considered your Application for Candidacy submission.

I am pleased to confirm that your submission was approved by the Committee subject to meeting the specific Ethics requirements outlined below. Within that context, your status as a CBS Doctoral Candidate is now formally confirmed and you may proceed to the next stages of your research plan.

ETHICS CLEARANCE REQUIREMENT

The University is bound by its responsibilities under the Australian Code for the Responsible Conduct of Research¹ to ensure that all research activities conducted by Curtin staff and students are ethically sound.

During its assessment of your Candidacy submission, the FGSC noted that your research involves some use of Human subjects or data. You are therefore required to gain appropriate Ethics clearance for your project prior to data collection.

Queries re Ethics requirements:

- ⇒ Contact your enrolling area Research Manager or the University Ethics Office (hrec@curtin.edu.au)
- ⇒ Refer online Curtin Ethics forms & guidelines: <http://research.curtin.edu.au/guides/human.cfm>.

IMPORTANT:

- ⇒ You are not authorised to commence fieldwork or any data collection until such time as you have received written confirmation of approval from the University Ethics Committee (HREC) or appropriate Faculty/School Ethics Sub-Committee.
- ⇒ Failure to comply with Curtin Ethics Policies and Requirements will result in the removal of all non-compliant data from your research and/or permanent embargo of your thesis.
- ⇒ If you have gained appropriate Ethics approval for your current research activities from an authority external to Curtin (ie. another University or industry partner) written confirmation of such must be presented to the Curtin Human Ethics (HREC) Administrator for endorsement before you continue your research at Curtin.
- ⇒ The University will not and cannot approve any retrospective ethics submissions.
- ⇒ Ethics approvals are almost always limited to a specified time period. You must monitor your research timelines in terms of ethics validity and ensure that appropriate extensions are obtained before your Ethics approval expires, as any data collected during uncertified periods will be risk embargo. This is of particular importance when LOA is taken during the data-collection stage of your research enrolment.

Please note that under Higher Degree by Research (HDR) Rules * Section 6 (e), any changes to your thesis title or thesis committee must be approved by the FGSC. Where a change of title reflects a change of focus, a new research proposal must be submitted. * <http://research.curtin.edu.au/graduate/policies.cfm#rules>

¹ <http://www.nhmrc.gov.au/guidelines/publications/r39>

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VARIATION OF STUDY DETAILS + ENROLMENT

Now that your candidacy has been formally approved, all future amendments to your enrolment must be endorsed by the Faculty Graduate Research Committee via submission of the appropriate form to the HDR Unit. This includes minor changes to thesis title or committee allocations, as well as any significant changes that may impact the timing, cost, resource use or context of your research (eg. supervisor addition or removal, variation of study rate, absences, expected milestone achievement dates, nomination of examiners, etc).

All HDR forms and processes are available online @ *ORD Graduate Studies* website:

- ⇒ *HDR student forms*: <http://research.curtin.edu.au/guides/forms/forms.cfm>
- ⇒ *Guidelines & information*: <http://research.curtin.edu.au/guides/hdrguidelines/>
- ⇒ *Policies & Rules*: <http://research.curtin.edu.au/guides/forms/gradstudiespolicies.cfm>

ACCESS TO RESEARCH SUPPORT FUNDS

Post-candidacy students are eligible to apply for funding in support of their HDR studies, including:

- **HDR Conference Funding**
 - Up to \$2500 in total throughout your doctoral studies for travel and participation at relevant academic conferences of national or international significance.
 - Details and forms - <http://research.curtin.edu.au/guides/forms/forms.cfm#conference>
 - Queries and submissions to the HDR Unit administration (Watts Place, Technology Park).
 - Must include budget, supporting documentation and signed Travel Approval form.
- **HDR Fieldwork & Consumables Funding**
 - Up to \$1400pa for up to four years to meet general costs of conducting your research (eg. photocopying, fieldwork travel, specialist software, etc).
 - Details and forms - <http://research.curtin.edu.au/guides/forms/forms.cfm#essential>
 - Queries and submissions to your Enrolling Area administration office.

If you have any questions at all regarding your Candidacy (or other academic matter) please do not hesitate to contact the HDR Unit Administration Office for assistance:

Telephone: 9266 4301 or 9266 7210

Email: cbs-hdr@curtin.edu.au

Location: Building 616, 7 Watts Place TECHNOLOGY PARK (by appointment)

On behalf of the Faculty Graduate Studies Committee, I offer my congratulations for meeting this important milestone in your enrolment and wish you every success for the remainder of your research studies at Curtin Business School.

Yours sincerely,

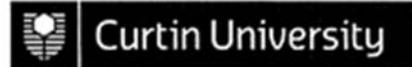


Dean Newman
Research Student Coordinator
Higher Degree by Research Unit
CURTIN BUSINESS SCHOOL

cc: Thesis Committee

APPENDIX VI ETHICS APPROVAL

MEMORANDUM



To:	Professor Dale Pinto Curtin Graduate School of Business (CBS)
CC:	
From	Dr Catherine Gangell, Manager Research Integrity
Subject	Ethics approval Approval number: RDBS-08-15
Date	03-Mar-15

Office of Research and
Development
Human Research Ethics Office

TELEPHONE 9266 2784
FACSIMILE 9266 3793
EMAIL hrec@curtin.edu.au

Thank you for your application submitted to the Human Research Ethics Office for the project:

The role of effective tax administration in encouraging greater compliance with taxation laws in Indonesia.

Your application has been approved through the low risk ethics approvals process at Curtin University.

Please note the following conditions of approval:

1. Approval is granted for a period of four years from to
2. Research must be conducted as stated in the approved protocol.
3. Any amendments to the approved protocol must be approved by the Ethics Office.
4. An annual progress report must be submitted to the Ethics Office annually, on the anniversary of approval.
5. All adverse events must be reported to the Ethics Office.
6. A completion report must be submitted to the Ethics Office on completion of the project.
7. Data must be stored in accordance with WAUSDA and Curtin University policy.
8. The Ethics Office may conduct a randomly identified audit of a proportion of research projects approved by the HREC.

Should you have any queries about the consideration of your project please contact the Ethics Support Officer for your faculty, or the Ethics Office at hrec@curtin.edu.au or on 9266 2784. All human research ethics forms and guidelines are available on the ethics website.

Yours sincerely,



Dr Catherine Gangell
Manager, Research Integrity