Curtin Business School
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The Compliance Costs of Large Corporate Taxpayers in Indonesia

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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.

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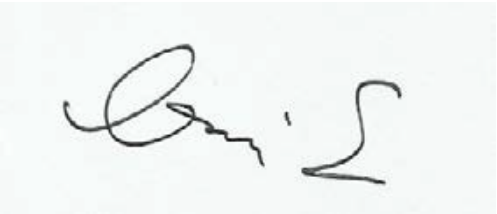
Signature: 

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ABSTRACT

This thesis discusses the results of the first research designed to investigate the compliance costs of large corporate taxpayers in Indonesia. Specifically, the objectives of the research are to investigate the magnitude of the costs, their relationship with pertinent factors — such as economic sectors, company size, and tax payment— and their significance; to identify the features of the costs; to investigate how the Indonesian compliance costs of large companies compare with those in other countries; to investigate the attitudes of large companies, as represented by their respective tax managers, towards the Indonesian tax system after the latest tax administration reform has been implemented; and finally to identify the effect of this reform on compliance costs.

This study uses quantitative methodology, with a mail survey as the main method, complemented by a number of interviews and discussion to gather further information. The use of mail survey has been dominant in the field of compliance costs studies, since the first study in the 1930s until the present day. The large corporate taxpayers in this research are defined as the companies that are registered in the Large Taxpayers Offices and Medium taxpayers Offices in Indonesia. The year being investigated is 2010.

The results of this study show that the compliance costs of large companies is estimated to be IDR420 million, or around AUD38,621 at the end of 2013 exchange rate. That amount equals 0.4 per cent to 11 per cent of annual revenue for the largest to the smallest companies respectively, 0.4 per cent to 13 per cent of total assets, 0.5 per cent to 94 per cent of corporate income tax payment (CIT), 2.9 per cent to 49 per cent of Value-Added Tax (VAT) payments, and 2.9 per cent to 41 per cent of withholding taxes (WHT) payments. Nationally, the gross compliance costs equal IDR12.28 trillion, or 3.16 per cent of tax revenue and 0.19 per cent of the Gross Domestic Product (GDP). The cash flow benefits enjoyed by large companies in Indonesia are estimated to be IDR2.90 trillion. Meanwhile, the tax deductibility benefits account for IDR3.05 trillion. Accordingly, the net compliance costs of large companies in Indonesia, after the deduction of the cash flow benefits and tax deductibility benefits from the gross compliance costs, are estimated to be 1.63 per cent of tax revenue and 0.10 per cent of GDP.

The research shows that the compliance costs are regressive in term of size. As the companies grow in terms of the number of employees, total assets, and annual turnover, the compliance costs per unit of measurement (per employee, IDR total asset, or IDR annual turnover) decrease, showing economies of size. The same also applies if compliance costs are measured by each IDR paid for income tax, Value-added Tax, and a number of withholding taxes.

A number of the features of the compliance costs are identified. Based on the sector, the companies in the retail and wholesale trading sector bear the most compliance costs compared to those in other sectors. However, there is no conclusive evidence as to which sector contains the companies with the lowest compliance costs. There is also little evidence that the difference in the length of operation significantly affects the compliance costs. When analysed by the components of the compliance costs, staff salaries account for almost half of the costs, followed by salaries for various personnel in the companies with a 17 per cent contribution and audit costs contributing 10 per cent. Staff salaries are significant in overall compliance costs, because almost all companies hire a number of full-time staff to manage taxation matters, with the average of 2.44 full-time employees per company. The dominance of the staff salaries is pervasive among companies in different sectors, different lengths of operation and different sizes. Regarding the use of tax consultants, the research also shows that the more mature the companies, the smaller their dependence on consultants. Likewise, the larger the companies, the less dependent they are on tax consultants. Regarding the proportion of time used by senior management in total compliance costs, the research shows that the larger the companies, the smaller the percentage.

The components of the costs based on the scope of payment could be grouped into internal costs (i.e. payment to staff and other costs) and external costs (i.e. payment to tax consultants). The research shows that the composition of the costs is 73 per cent internal costs and 27 per cent external costs. Tax consultants are hired to manage tax audits (36%), to handle routine tax management in the companies (35%), to prepare tax returns (27%), to process tax objections (7%) and to represent the companies in any tax related trial (4%). The dominance of the internal costs is prevalent for companies in all sectors (except the construction sector) as well as different length of operation and different sizes.

The components of the costs based on the purpose of expenditures could be grouped into two, namely computational costs and planning costs. The research shows that

computational costs dominate the costs with an average contribution of 73 per cent compared to 27 per cent for planning purposes. The dominance of computational costs is spread over different sectors, different length of operation and different size of company. The research also shows that the more mature the company, the greater proportion of the costs incurred for computational purposes. Meanwhile, the greater the size of the company, the smaller the percentage of planning costs, except for the companies in the largest band of turnover where the planning costs are slightly larger than that of companies in the previous band of turnover.

The research indicates that the allocation of the costs based on the type of taxes on average is dominated by VAT which absorbs 43 per cent of the costs, compared to WHT and CIT with 29 and 28 per cent respectively. This proportion varies depending on the sector, with the proportion of VAT ranging from 28 per cent in the service sector to 52 per cent in the "other" sector. Meanwhile the proportion of CIT ranges from 20 per cent in the mining sector to 51 per cent in the service sector and WHT ranges from 23 per cent in the "other" sector to 39 per cent in the mining sector. When analysed based on the length of operation, the more mature the company, the smaller proportion for VAT. However, there is little evidence that the size of the company affects the allocation of the costs.

The research indicates that when undertaking non-routine activities, namely handling tax audits, proposing tax objections and facing a tax related trial, large companies mostly depend on tax consultants instead of relying on their own tax staff. In handling tax audits, 93 per cent of the compliance costs are allocated to pay tax consultants with only five per cent for staff salaries and two per cent for other costs. Likewise, when proposing tax objections 77 per cent of the costs are allocated to tax consultants, 17 per cent to own staff and six per cent to other costs. When facing a tax related trial, 86 per cent of the costs are for tax consultants, 12 per cent for staff and two per cent for other costs.

The comparison with the results of similar studies in other countries—with an acknowledgement that comparing the costs among countries is problematic due to many factors, particularly the tax rate, tax system, and overall economic and social structure—produces a number of notable points. First, the level of compliance costs for large companies in Indonesia of AUD12,892 for income tax, is significantly lower than those in countries where the compliance costs for income taxes for large companies have been investigated, namely in the US, Canada, Australia, Malaysia, Singapore and Hong Kong. The compliance costs of large companies in the US, Canada, and Australia are much higher than

those in Indonesia at AUD2.3 million, AUD1.2 million and AUD0.6 million, respectively, after adjusting for inflation and the exchange rate. The compliance costs of large companies (in this case public companies) in Malaysia, Singapore and Hong Kong are, AUD31,865, AUD74,920, and AUD46,037, respectively, after adjusting for inflation and the exchange rate. Second, the overall compliance costs of large companies in Indonesia for all types of taxes, namely AUD46,043 are smaller than those in Australia of AUD2.8 million.

Third, upon further analysis, the finding that the compliance costs in Indonesia are lower than those in other countries does not necessarily mean than the tax system in Indonesia is less complex than that in other countries. The lower costs in Indonesia are mainly due to the fact that the size of companies in Indonesia is smaller than those in other countries. In addition to this, the wage rate in Indonesia is significantly lower than that in other countries. In fact, a study by the World Bank (2012) shows that the tax system in Indonesia is more complex compared with that in all other countries surveyed.

Even though the level of compliance costs in Indonesia is lower compared to that in developed countries (US, Canada, Australia), the features of the costs share a number of similarities. For example, the dependence on own staff in Indonesian companies is similar to that in the US, Canada and Australia in 2013. The dominance of staff costs in the internal costs in Indonesia is the same as in developed countries. The composition of the costs in Indonesia based on the purpose, namely for planning and computation, is similar to that in Australia in 2013 and the US, but different when compared with Australia in 1986/87 and Canada.

Interestingly, while the features of the compliance costs in Indonesia are commonly comparable with those in developed countries, the features are different compared with those in other Asian countries. For example, the composition based on the scope of payment in Indonesia, where the internal costs dominate, is reversed with that in other Asian countries where the external costs are greater. Also, when conducting tax planning and tax computation, companies in Indonesia mainly depend on their own staff, compared with other Asian countries where they depend on external experts. However, there is at least one similarity between Indonesia and other Asian countries; namely, when the costs are divided into computational and planning costs, the computational costs are greater.

The research has been able to investigate the attitudes of large companies towards the tax administration in general, towards the current tax office with whom they register, and

towards the Account Representatives (AR) with whom they interact. With varying degrees, large companies agree that in general tax administration is better in terms of the advancement in the information and technology (91% agreeing response), ease of obtaining ruling clarification (55%), simpler procedures for tax objection and appeal (32%), and ease of following the regulations (73%). Also with varying degrees, large companies in Indonesia agree that the tax office where the taxpayers register is better in terms of easier submission of tax returns (75%), more competent human resources (63%), better service (83%), and more satisfaction (73%). There is only one statement, namely the easier process of tax audit, which produces a less than 50 per cent agreement rate. Regarding the AR to whom the taxpayers interact on routine basis, the attitudes are different. Even though 74 per cent agree that the ARs are helpful, just under half (47%) agree that the ARs are knowledgeable. Also, only 32 per cent of companies agree that the ARs could ease psychological pressure. Finally only 42 per cent agree that the ARs are needed, with half of respondents choosing neutral answer and eight per cent stating that the ARs are unnecessary.

The results of the research also indicate that, despite the majority of positive attitudes toward the tax administration reform, unfortunately, a majority of respondents (70%) do not experience a change in the compliance costs. Only 18 per cent of respondents state that the reform reduced their compliance costs while eleven per cent claims the reform increased the compliance costs instead. The reduction in the costs tends to be enjoyed mostly by the companies operating in the manufacturing sector, located on Sumatra Island, employing 501 to 1,000 workers, and having an annual turnover of more than IDR100 billion and total assets of more than IDR100 billion. Meanwhile, an increase in the compliance costs is experienced by companies operating in the “other” sector, which are located on Java Island, have been operating for more than ten years, employ more than 5,000 people, and have assets of IDR50-100 billion.

Besides the findings on the compliance costs and the attitudes, this research also produces two results on the tax administration reform in Indonesia, particularly the comparison with similar reforms in other countries and the effectiveness of the reform. The establishment of an organisational structure based on functions and the formation of special offices to deal with large companies in Indonesia, follow the practice in other countries, particularly in developed countries. Regarding the goals of the reform, unfortunately it is only partially achieved. The achievement of the main goal, which is to enhance voluntary compliance, is

not strongly indicated based on the tax revenue collection data. The other goals, namely promoting trust and enhancing productivity and integrity of the tax apparatus have been achieved.

A number of recommendations are offered based on the results of the research. The first and foremost recommendation would be encouraging more research on the compliance costs that could be undertaken either by the government or other agencies such as universities or research institutions. In addition, considering that compliance costs are significant to the taxpayers, it is recommended that the government with support from the parliament should start taking initiatives to adopt the establishment of a "regulation impact statement" such as has been implemented in more advanced countries. With this policy, the impacts of proposed new regulations should be recognized and analysed before the enactment of the policies to help evaluate the potential costs and benefits of the policies. Moreover, because the costs of tax audits and subsequent activities, namely tax objections and tax appeals, are significant to the taxpayers, it is recommended that the tax audits are better targeted to taxpayers with a higher risk of noncompliance. This policy would benefit both the taxpayers because of the saving of the audit costs and the tax administration because of higher potential tax revenue arising from the risk-based audits. In line with the finding of this research that the tax administration reforms are beneficial to the taxpayers but does not contribute significantly to the voluntary compliance of the taxpayers as expected, it is recommended that the tax administration establish additional measures to increase compliance.

Finally, it is acknowledged that there are a number of limitations in this research. This research estimates the compliance costs of large corporate taxpayers registered in the Large and Medium Taxpayers Offices in the Indonesian tax administration (DGT). The inclusion of taxpayers in these offices is not based on an absolute value such as the number of employees or the amount of turnover of those companies; rather it is based on their relative size or ranking nationally or regionally. In addition, the response rate of this research is somewhat low at 8.2 per cent, which is lower than that of other Asian countries as well as more advanced countries such as Australia, United States, and Canada. However, with a total number of respondents of 246, the generalisation of the results could still be conducted.

DEDICATION

This thesis is dedicated to my wife Karlina Adiatman and our son Habibie Duke Susila. Also dedicated to my mother Hj. Siti Soedarni and my late father H. Boediyono.

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PUBLICATIONS

JOURNAL PAPERS:

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Susila, B. 2014. "The Compliance Costs of Large Companies in Indonesia: International Comparison". *Australasian Tax Teachers Association Conference (ATTA) Conference.* Griffith University, Brisbane.

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LIST OF ABBREVIATIONS

DGT	: Directorate General of Taxes
GDP	: Gross Domestic Product
BPS	: Biro Pusat Statistik (Indonesian Statistical Bureau)
BI	: Bank Indonesia (Indonesian Central Bank)
IMF	: International Monetary Fund
CIT	: Corporate Income Tax
VAT	: Value-Added Tax
WHT	: Withholding Tax
ATAX	: Australian School of Taxation, University of New South Wales
GST	: Goods and Service Tax
WST	: Wholesale Tax
AUD	: Australian Dollar
USD	: United States Dollar
NZD	: New Zealand Dollar
Gld	: the Netherland Gulden
OECD	: Organisation for Economic Co-operation and Development
PAYE	: Pay As You Earn
FBT	: Fringe Benefit Tax
IBM-SPSS	: International Business machine-Statistical Package for the Social Studies
SGD	: Singaporean Dollar
MR	: Malaysian Ringgit
IDR	: Indonesian Rupiah
LTO	: Large Taxpayers Office
MTO	: Medium Taxpayers Office
STO	: Small Taxpayers Office
RIA	: Regulatory Impact Assessment

KEY GLOSSARY

Compliance Costs: The costs incurred by taxpayers over and above their tax liability in fulfilling their tax obligations.

Internal Costs: The part of compliance costs that are incurred within the business, consisting of staff costs and additional costs (stationery, utilities, and other costs)

External Costs: The part of compliance costs that are paid to external agents such as tax consultants or tax lawyers

Planning Costs: The optional costs that are incurred by taxpayers to legally minimise their tax obligations in the future

Computational Costs: The unavoidable costs incurred by taxpayers to fulfil their tax obligations

Attitudes of Taxpayers: The perception of taxpayers toward the taxation (in this thesis, towards the tax system in Indonesia)

Gross Compliance Costs: The national aggregate of compliance costs of a certain segment of taxpayers (in this thesis, the national compliance costs of large companies)

Cash Flow Benefits: The benefit of holding interest-free funds by taxpayers because of the difference between the time the income is obtained or the time the taxes are withheld and the time the tax on that income, or the tax withheld, have to be remitted to the government

Managerial Benefits: Indirect benefit enjoyed by taxpayers because of the fulfilling of tax obligations in the forms of better bookkeeping, documentation, and reporting

Psychological Costs: Costs of the burden of anxiety arising from the requirements of tax obligations

Net Compliance Costs: The national compliance costs minus the cash flow and tax deductibility benefits

Large Corporate Taxpayers: For this thesis, large corporate taxpayers are defined as all companies that are registered in the Large Taxpayers Office (LTO) and Medium taxpayers Office (MTO) in Indonesia

Rupiah (IDR): The official currency of the Republic of Indonesia. At the end of 2013, one Australian Dollar (AUD) equals IDR10,874

Chapter 1. Introduction

1.1 Overview

This thesis discusses the findings of the first research specifically undertaken to investigate the compliance costs of large corporate taxpayers in Indonesia. The thesis covers a number of topics, namely the magnitude of the compliance costs, the features of the costs, a comparison with the costs in other countries, the attitudes of large companies towards the Indonesian tax system as well as the effects of the 2002-2008 tax administration reform on the compliance costs.

As a part of the thesis, this introductory chapter provides a succinct illustration in Section 1.2 of the background to why this research is worth undertaking, the statement of the problems arising from the background of this study in Section 1.3, the aims and objectives that this research tries to accomplish in Section 1.4, and the approach chosen for this study (Section 1.5). The next sections discuss the significance, the scope and the terminologies used in the study (Sections 1.6, 1.7, and 1.8, respectively). Finally the structure of the thesis and the summary are presented in Section 1.8 and 1.9, respectively.

1.2 Background

1.2.1 Literature

Even though the importance of the compliance costs of the taxpayers has long been recognised (in fact, since Adam Smith's four principles of a good tax system in 1776), studies on this subject had been neglected, and only started in the 1930s in the United States. After a number of research studies in North America on various taxes, the study spread to Europe with the first research in Germany and then in the United Kingdom, with a series of research studies addressing different type of taxes. These studies in the UK were then summarised by Sandford, Godwin and Hardwick (1989) in a publication that since became the authoritative source in the field of compliance costs, because not only does it comprehensively summarise the research of this subject that had been undertaken before, but also discusses the results of their research series on all type of taxes in the UK and more importantly, provides a number of essential concepts and methods in the field of compliance costs that still apply today.

The development of the studies in this field soon spread to other countries in Europe and North America, Australia, New Zealand, Asia, Africa, as well as transition countries, concentrating on different types of taxes. This research also now involves an international organisation (the World Bank Group) with a series of studies in developing countries in Africa, Asia and transition countries on micro, small and medium taxpayers.

Despite the numerous research studies in the field of compliance costs, the research on large taxpayers has been rare. Internationally, there have been only three research studies on the compliance costs of large companies in the respective countries, namely in the United States (Slemrod and Blumenthal 1996), Canada (Erard 1997), and Australia (Evans, Lignier, and Tran-Nam 2013). If the definition of large companies is broadened to include companies that are registered on the stock exchange markets, the number of studies rises, including the research in Australia (Pope, Fayle, and Chen 1991), Malaysia (Loh et al. 1997; Sharoja 2013), Singapore (Ariff, Ismail, and Loh 1997; Ariff, Loh, and Talib 1995) and Hong Kong (Chan et al. 1999). In addition, those studies are mainly focused on the income tax, except for one study in Australia (Evans, Lignier, and Tran-Nam 2013) that covers all types of taxes. The present research deals with all types of taxes.

Meanwhile, in Indonesia there is only one study that is related to the compliance costs of public companies (Prasetyo 2008). However, the purpose of this 2008 research is not specifically to measure the compliance costs of large companies; instead, it is to measure the effect of uniformity, perception and the size of the companies on the tax compliance of taxpayers registered on the Indonesian Stock Exchange.

1.2.2 Indonesian Tax System

Indonesia is a country located in South East Asia, with a unitary governmental system consisting of 33 provinces, 399 regencies, 98 cities, 6,879 subdistricts and 79,702 villages at the end of 2012 (Badan Pusat Statistik 2013, 33). The latest statistical data show that in the 10-year period from 2003 to 2012, the population increased from 213 million in 2003 to 244 million in 2012 with the population growth rate ranging from 1.22 per cent to 1.38 per cent during those periods. The Gross Domestic product (GDP) of Indonesia with current price increased from IDR2,013 trillion in 2003 to IDR8,241 trillion in 2012 (or AUD185 billion and AUD756 billion at the end of 2013 exchange rate) with the economic growth ranging from 4.6 per cent to 6.5 per cent. The income per capita in Indonesia also increased from IDR9.4 million in 2002 to IDR33.7 million in 2012 (or AUD864 to AUD3,099).

During those periods, the inflation rate fluctuates significantly, with the lowest being 2.8 per cent in 2009 and the highest 17.1 per cent in 2005 (Badan Pusat Statistik 2013, 1–2).

The latest data from the International Monetary Fund (IMF) shows that the economic growth in Indonesia in 2013 in real GDP is 5.8 per cent with the projected growth in 2014 and 2015 is 5.4 and 5.8 per cent, respectively (International Monetary Fund 2014, 59). This growth is comparable with the overall average growth in the Asian countries of 5.2, 5.46 and 5.6 per cent in 2013, 2014 and 2015, respectively and higher than global growth of 3.0, 3.6 and 3.9 per cent, respectively (International Monetary Fund 2014, 59).

Similar to that in other countries, government expenditure in Indonesia is mainly financed by the tax revenue. Data show that in the period from 2001 to 2010 the tax revenue covers 52 per cent to 64 per cent of government expenditures. During the same period, tax revenue in Indonesia ranges from 11.7 per cent to 14.08 per cent of the GDP (Directorate General of Taxes 2011, 100–101).

Taxation in Indonesian has been based on a self-assessment system since 1983 (Gillis 1985, 221). With this system, taxpayers are obliged to register, calculate, remit and report the tax payable. Recently, the number of taxpayers consist of around 16.8 million individual taxpayers, around 471,000 government treasurers[1] and around 1.7 million corporate taxpayers, for a combined total of approximately 18.9 million taxpayers (Directorate General of Taxes 2011, 98). There are three main tax forms in Indonesia: income tax (IT), Value-Added Tax (VAT), and a number of withholding taxes (WHT). The supreme laws in the taxation system are stipulated by the government and the parliament in the form of the Acts, with subsequent regulations and rules set by the Government of Indonesia, the Minister of Finance, and the Director General of Taxes, according to their respective jurisdictions as mandated by the Acts.

Taxation in Indonesia is managed by the Directorate General of Taxes (DGT) as a part of the Ministry of Finance (MOF). Currently, the organisational structure of the DGT consists of one Secretariat General, four Senior Advisors, 12 Directorates, 31 Regional Tax Offices (RTO) and one Data Processing Centre (DPP). Under the RTO, there are a number of Tax Service Offices and a number of Tax Services, Counselling and Consultation Offices. The

[1] Government treasurers are national's or local government's employees whose job is disbursing money from state or local budget.

structure of the directorates, regional offices, and tax service offices is based on the functions, such as tax regulations, tax audit and collection, tax intelligence and investigation, and tax objection and appeal. The taxpayers are registered based on the size of the taxpayer; currently there are four Large Taxpayer Offices (LTO), 28 Medium Taxpayer Offices and 299 Small Taxpayer Offices (Directorate General of Taxes 2011, 18–20). The organisational structures of the Headquarters, Regional Offices, and Tax Service Offices are presented in Appendix A, Appendix B, and Appendix C, respectively.

1.2.3 Tax Administration Reform

After a major tax reform in 1983 that shifted the Indonesian tax regime from the official assessment to the self-assessment system, taxation in Indonesia has undergone a number of reforms both in the policies and in the administration. The latest administrative reform was undertaken from 2002 to 2008, and named as the modernisation of the tax administration. This latest reform covers a number of policy changes in organisational structure, business processes, information technology and communication, human resources management, and governance (Directorate General of Taxes 2008, 14).

Included in the tax administration reform is the establishment of the tax offices based on the size of the taxpayers and the shift to a function-based organisational structure. With this change, taxpayers are now both closely supervised and directly guided, especially for large companies where there is a only limited number of taxpayers registered in one large taxpayer office and in one supervision and guidance section managed by the account representatives (AR).

The number of large companies in Indonesia is around 28,000 or 0.15 per cent of registered taxpayers. Yet, the tax revenue from this segment accounts significantly in the national tax revenue, ranging from 33 per cent to 64 per cent in the 2003–2010 period, as can be seen Table 1.1.

Table 1.1: Tax Revenue from Large Companies, 2003–2010

Aspect	2003	2004	2005	2006	2007	2008	2009	2010
Tax revenue, IDR trillion	204.15	238.96	298.33	358.05	426.23	571.10	544.53	627.89
Revenue from large companies, IDR trillion	68.45	112.39	165.85	202.84	245.17	347.32	350.63	388.83
Revenue from large companies, % of tax revenue	33.53	47.03	55.59	56.65	57.52	60.82	64.39	61.93

Source: Directorate General of Taxes (2011), unpublished. Note: 2003 is the start of the formation of the tax offices for large companies. GDP amounts are at current price.

1.3 Statement of the Problem

The importance of large companies in Indonesia is very high because they presently contribute more than half of national tax revenue despite their small number, namely only accounting for less than 0.2 per cent of total number of taxpayers in Indonesia. In the self-assessment regime in the Indonesian tax system, the taxpayers are obliged to register, calculate, remit and report their tax payable, and each activity requires sacrifices from the taxpayers in various forms of expenditure and effort. Yet, until recently, very little is known regarding these sacrifices, including the amount of the expenditures, the components and the allocation of the costs, and in what ways the taxpayers undertake their overall activities to comply with the tax laws.

1.4 Aims and Objectives of this Research

In order to address the problems discussed above, this research is timely. The aim of this research is to improve the understanding of how and at what cost large corporate taxpayers in Indonesia manage their resources to comply with the tax obligations levied upon them. It is expected that from this research a number of recommendations could be offered to the Indonesian tax administration in order to improve the policies toward large taxpayers in particular and all taxpayers in general.

Specifically, the research has five objectives. First, to investigate the magnitude of the costs in terms of monetary value, their relationship with some pertinent factors such as the sectors in which the companies are operating, the length of the operation, and the size of the companies, as well as the relative significance of the costs compared to the tax revenue and the GDP. Second, to identify the features of the costs based on the scope of the expenditure, the purpose of the costs, and the allocation of the costs based on the type of

taxes, as well as the type of activities. Third, to investigate the comparison between the Indonesian compliance costs of large companies with those in other countries. Fourth, to investigate what the attitudes of large companies are towards the Indonesian tax system after the tax administration reform was implemented. Finally, the research identifies the effect of the reform on the compliance costs.

1.5 Research Approach

This research is based on the positive paradigm, where the knowledge obtained from this research is deduced from the empirical evidence. As such, this research uses quantitative methodology throughout, starting from the determination of the population, the framing and the selection of the sample, to the analysis and the presentation of the findings of the research. The research utilises mail survey methods accompanied by a number of in-depth interviews and discussions with relevant parties to gather further information.

1.6 Significance of the Study

This research is the first regarding the measurement of tax compliance costs in Indonesia. A small scale research study on public companies is the only previous research in Indonesia undertaken so far. In line with that, it is expected that the results of this research would offer some significance contributions to the literature on taxation and to tax administration in Indonesia. To the literature, this study's findings could offer new knowledge on tax compliance costs of large companies in Indonesia that may have different characteristics with those in other countries and strengthen the understanding of tax in South-East Asian countries. In addition, this first research is expected to encourage other researchers in Indonesia to investigate different aspects of compliance cost such as for small-medium enterprises or individual taxpayers, or in different aspect of Indonesian taxation in general. To the Indonesian tax administration, it is expected that the results could offer new understanding on large taxpayers that could lead to better policies to pursue higher compliance.

1.7 Scope of the Study and Terminologies

The large corporate taxpayers are the companies that are registered in the LTO and MTO as of December 2010. The number of these taxpayers is 28,681. The compliance costs being studied are the costs for taxpayers during the 2010 calendar year, from 1 January to 31 December.

The definition of compliance costs refers to the one first used by Sanford, Godwin, and Hardwick (1989, xi) and since then it is widely accepted in this field of study, as the "costs incurred by taxpayers or third parties, notably businesses, in meeting the requirements laid on them by a given tax structure (excluding the payment of the tax itself and any distortion costs arising from it)."

Besides triggering the costs, compliance activities also produce benefits to the taxpayers, namely the cash flow benefits and the tax deductibility benefits. The cash flow benefits arise when there is a difference between the time when the tax is withheld from third parties and the time when that tax is remitted to the government; or a difference between the time the completion of the economic transaction and the time the tax from this transaction is remitted to the government. In either case, the taxpayers enjoy interest-free funds during the time difference. Meanwhile, tax deductibility benefits arise when the sacrifices in the form of financial costs made by the taxpayers are in fact deductible from the taxable income. In this case, the tax payable would diminish because of the taxpayers' compliance activities.

Based on the scope of the expenditures, the compliance costs could be divided into internal and external costs. Internal costs for companies consist of the salaries paid for the various personnel in different position in the companies, such as directors, managers, and staff; and the other costs, including stationery, transportation and utility expenses. The external costs are expenditures for the services rendered by outside parties, such as tax consultants or tax lawyers.

Based on the purpose of the expenditure, the compliance costs could be divided into computational and planning costs. Computational costs comprise expenditure that is directly related to the activities of the fulfilment of the tax obligations, such as the costs related to registration, bookkeeping, and documents production and storing, as well as tax calculation and reporting. Meanwhile, planning costs consists of expenditure to minimise tax obligations and is not directly related to compliance activities, such as the costs of attending tax seminars or updating tax knowledge.

1.8 Structure of the Thesis

This thesis is organised into eight chapters, namely an introduction, review of the literature, research methodology, Indonesian tax system and the drivers of the compliance costs (e.g. registration, payment, filing and reporting), compliance costs estimates,

attitudes towards the tax administration, discussion, and conclusions and policy recommendations.

Chapter 1 is the introduction for this thesis. The goals of this chapter are to introduce the readers on the background, as well as the aims and objectives of this study, and to provide a general preview of the thesis. In detail, this chapter contains the overview of the Indonesian tax system, the statement of the problem, the aims and objective of the research, the significance of the study, and the structure of the thesis.

Chapter 2 comprises the review of the literature. This chapter aims to provide the readers with an introduction to the research that has been undertaken in the field of compliance costs of taxation in general and for large companies in particular from the early stages until the present day, both in international and Indonesian contexts. In detail, this chapter contains the discussions on the development of the compliance costs studies, the current studies of the compliance costs since 2000s, the results of the compliance costs research, the compliance costs studies on large companies in other countries and in Indonesia, and the government policies regarding the compliance costs.

Chapter 3 discusses the Indonesian tax system and the drivers of the compliance costs. The objective of this chapter is to provide a comprehensive picture on the tax system in Indonesia and what are the activities conducted by large companies as mandated by the Indonesian tax laws that trigger the costs. Specifically, this chapter discusses the Indonesian tax system in general, the tariff and the calculation for each type of tax, the taxpayers' rights and obligations, the costs of conducting each activity related to taxes, and the Indonesian tax administrative reforms.

Chapter 4 focuses on the research design and methodology. This chapter is presented to provide the readers details on how this study is designed and how the selected method is implemented as well as how the results are analysed and presented. Particularly, this chapter consists of the discussion on the research design, the survey implementation, the sample, population and response rate of the research, and the measurements and data analysis.

Chapter 5 presents the quantitative results of the research. This chapter provides the overall illustration in numbers of how much the compliance costs of large companies in Indonesia are, including their features and their aggregate costs nationally. This chapter specifies the survey and the response rate of the study, the profile of the respondents, the

estimated aggregate compliance costs, the features of the costs, the gross compliance costs, and the benefits of the expenditures as well as the net compliance costs.

Chapter 6 explores the attitude of large companies towards the Indonesian tax administration. The goal of this chapter is to present qualitative results of the research based on the survey, interview and discussions, particularly on the attitudes toward the tax administration after the reform, as well as the effects of these reforms on the compliance costs. This chapter discusses the attitudes toward the tax administration, the effects of the reform, and the results of the interviews and discussions with related parties, namely tax managers in large companies and tax consultants.

Chapter 7 presents the discussion. After the amount of the compliance costs and their features is discovered and the tax administration reform is analysed, this chapter examines both in broader contexts, nationally and internationally. In particular, this chapter reports the comparison of the results of this study with those of prior research in Indonesia as well as in other countries, the relationship between the magnitudes of the compliance costs with the complexity of the tax systems, a comparison with tax reforms in other countries, and the achievements of the Indonesian tax administration reforms.

Chapter Eight closes the thesis with the conclusions and policy recommendations. This is the essence of the research; after the key results are presented, the recommendations are offered. This chapter discusses the summary of the key findings on the compliance costs and the tax reform, offers major policy recommendations, acknowledges the limitations of the study and suggests directions for future research.

1.9 Summary

This chapter serves as an introductory segment of the overall thesis and discusses relevant information on what the thesis is aiming to convey. It contains the overview of the thesis, the background on why the research is important, the problem that triggers the research, the aim and objectives of the research, the methodology adopted, the significance of the study, the scope and the terminologies used, and the overall presentation structure of the thesis. It is expected that upon an understanding of this succinct portrayal of the thesis, the reader would be prepared to follow the overall thesis that will be detailed in the following chapters.

Chapter 2. Literature Review

2.1 Introduction

This chapter explores and analyses the literature on the research into the compliance costs of taxation from the beginning of the recognition of the importance of the compliance costs to the present research since 2000. Besides the development of the studies, this chapter also discusses the research on large companies relevant to this thesis that have been undertaken worldwide, with more specific details. In order to present a comprehensive picture of the compliance costs studies worldwide, additional information that summarizes all the research that has been undertaken are provided is the Appendices.

The chapter is organized as follows. After this introduction, Section 2.2 discusses the emergence of the compliance costs studies, dated back to Adam Smith's four canons of taxation, the early development in North America and Europe and the continuation to the beginning of the 2000s. Section 2.3 provides the details of what has been researched in the field of the tax compliance costs since 2000, followed by Section 2.4 that discusses the important findings of the research on the compliance costs of companies, excluding the research on individuals and small businesses. Section 2.5 then explores the research specifically designed to investigate the compliance costs of large corporate taxpayers that has been undertaken internationally, covering North American countries, Australia, and Asian countries, as the basis for the discussion in the following chapters. Section 2.6 discusses how different countries apply new tax policies based on the assessment of potential tax compliance costs. This chapter concludes with a summary. Appendix D presents a summary of the results of compliance costs studies on companies only since 1980, while Appendix E shows a summary of the latest compliance costs studies from 2000 until the present day for all types of taxpayers.

2.2 The Development of Compliance Costs Studies

As has been noted by a number of leading researchers (for example Sandford, Godwin, and Hardwick 1989; Pope, Fayle, and Chen 1989; Allers 1994) the concern for the compliance costs of taxation was first initiated by Adam Smith (1776) in his four famous canons of taxation, namely equity, certainty, convenience and economy. On "certainty", Smith argues

that “the tax which each individual is bound to pay, ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person” (Book 5, Chapter 2, Part 2, Number 2). On “convenience”, it is stated that “every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it” (Chapter 2, Part 2, and Number 3). The term “compliance costs” relates with the term “manner” in these two principles which emphasize that it has to be “clear and plain” and “convenient”.

Even though the importance of minimizing the compliance costs has been long recognized, the systematic study of compliance costs only started in 1935 in the United States by R. M. Haig (Sandford, Godwin, and Hardwick 1989; Allers 1994; Pope 2003; Evans 2003b).Several different reasons for this negligence have been offered, including the reduced role of tax in the economy (Sandford, Godwin, and Hardwick 1989, 27); the complexity and costliness of compliance studies (Allers 1994, 7); the complexity and the lack of political will (Pope, Fayle, and Duncanson, 68–69); the notion that the costs have been immaterial, the unavailability of robust model to reduce the costs, and the difficulty to obtain needed data (Tran-Nam et al. 2000, 229).

The development of compliance costs studies generally are divided into three stages (Sandford, Godwin, and Hardwick 1989: Pope 1993; Allers 1994), namely the North American research in the 1930s to the 1960s, European research in the 1960s and early 1970s and the international studies after 1980. In North America, Haig with his research on corporations is considered the “pioneering expedition into this unexplored territory”, although the results must be regarded as suspect because of low response rate and bias towards large corporation (Sandford, Godwin, and Hardwick 1989, 27). The research in North America up to the 1960s almost exclusively is related to corporate taxpayers, and according to Sandford, Godwin, and Hardwick (1989) they include the Neeld Committee in 1962 on the total compliance burden of business taxpayers followed by the series of studies from the Ohio State University Bureau of Business Studies in 1953–1961 on a number of different tax bases and the Bryden study in Canada on corporate taxpayers in 1961. After those early studies, the research shifted to the smaller segment for taxpayers with research into small businesses by Muller in 1963 and three studies by Wicks in 1965–67 on personal taxpayers (Sandford, Godwin, and Hardwick 1989, 30).

The second period in the 1960s and early 1970s saw the research begin in Europe with the first research undertaken by Strumpel in 1966 on small businesses in Germany (Sandford, Godwin, and Hardwick 1989, 31; Pope 1993, 23. After this initial research in Europe, Sandford pioneered the study in the United Kingdom, first on personal direct taxes in 1971 to 1973, and continued throughout the 1980s on the other main taxes in the UK such as VAT, PAYE, Personal Income Tax, CGT, and NICs (Sandford, Godwin, and Hardwick 1989; Godwin 1995).

Sandford, arguably, could be labeled as the "father" of compliance costs study, because as noted by Prebble (2001, xi), he is "the world's outstanding authority on the identification and measurement of compliance costs" and also there is a study by John Turner in 1996 (as cited by Prebble 2001) concluding that all tax compliance costs research that has been published in the world all lead to Sandford. In addition, Pope (1993, 13) argues that the work by Sandford is "an essential reference to all in this field". Similarly, Allers (1994, 10) suggests that the first scientific estimate of the operating costs of an entire tax system published in Sandford, Godwin, and Hardwick (1989) is a "must" for anyone interested in methodological questions and policy issues. Sandford is the first to comprehensively analyze the problems in measuring compliance costs and to categorize them as well as introduce the terms of cash flow and managerial benefits.

The third period from 1980 onwards saw the spread of compliance costs research internationally. Sandford, Godwin, and Hardwick (1989) note that at the time the interest in this research has spread to Ireland, the Netherlands, Germany, North America, Canada, Sweden, Germany, and Australia.

After the three periods postulated by Sandford, Godwin et al. above, the studies in Australasian and Asian countries started in 1990s. In Australia, compliance cost research was pioneered by Pope with works on personal income tax (Pope, Fayle, and Duncanson 1989), public companies' income taxation (Pope, Fayle, and Chen 1991), employment-related taxation (Pope, Chen, and Fayle 1993), wholesale sales tax (Pope, Fayle, and Chen 1993), and companies' income tax (Pope, Fayle, and Chen 1994). Pope later also actively supports the research on other countries as well, such as Malaysia (Pope and Abdul-Jabbar 2008; Ibrahim and Pope 2011), Botswana (Makara and Pope 2013), and Thailand (Chunhachatrachai 2013) as well as Indonesia (Susila and Pope 2012).

Besides being the pioneer in the compliance costs research in Australia by having undertaken research on the compliance costs of almost all types of taxes in Australia, similar to Sandford et al. in the UK, Pope is also the first to identify the relationship between the tax policies and the compliance costs in a country. He categorizes the relationship into six stages, namely the absence of an interest in the topic of compliance costs, the recognition of the costs qualitatively, the quantitative measurement of the costs, the policy recognition, the implementation and the effectiveness of the policies and the continual monitoring of the compliance costs (Pope 1992, 2–7). This stage recognition is useful in evaluating how advanced the position of a country is in regard to the policy on compliance costs; for example, in 1994 Allers argues that the Netherlands has reached the fourth stage postulated by Pope, and has yet to achieve effective policy measures and continuous monitoring (Allers 1994, 13).

Australia is the most advanced country regarding compliance costs study, probably only after the UK and the US, in terms of the level of published research. After the initial studies by Pope, there are additional studies covering a wide range of subjects. Subsequent research in Australia includes the costs for small business (Lignier and Evans 2012; Tran-Nam and Glover 2002b; Wallschutzky and Gibson 1993; Rametse and Pope 2002; CPA Australia 2003; Yellow Pages 1996), federal taxes for companies (Evans et al. 1996), transitional costs from WST to GST (Tran-Nam and Glover 2002), Tax Value Methods for business taxpayers (Evans, Tran-Nam, and Jordan 2002), capital gains for individuals (Evans 2003), and most recently on large companies (Evans, Lignier, and Tran-Nam 2013).

Besides having undertaken a major compliance costs study in Australia, Evans et al. also emphasize a conceptual issue in the discipline of compliance costs, namely the tax deductibility benefit. Tax deductibility benefits are the deduction from taxable income enjoyed by the taxpayers who have incurred expenses to comply with the taxes (Tran-Nam et al. 2000, 233). They argue that although this term has been introduced by another researcher long ago, the concept has been neglected, particularly by researchers from North America. Besides, in their own studies, this concept is applied in the Netherlands (Allers 1994, 21), India (Chattopadhyay and Das-Gupta 2002b, 21) and Croatia (Blažić 2004), as well as this current research. This is the third benefit of the compliance costs, after the cash flow and managerial benefits introduced by Sandford et al. (1989, 15)

During this period, research into compliance costs also emerged in New Zealand. The first research is undertaken to investigate the compliance costs of income tax and GST for

business taxpayers (Sandford and Hasseldine 1992). The other research looked at the costs of companies subjected to controlled foreign company regime (Prebble 1995).

In Asia, research into compliance costs was pioneered by Ariff with research in Singapore for corporate income taxation in 1994 (Ariff, Loh, and Thalib 1995) and 1996 (Ariff, Ismail, and Loh 1997). Subsequently, he is also involved in research in Malaysia on corporate income taxation (Loh et al. 1997) and on small and medium enterprises (Henefah, Ariff, and Kasipillai 2001) as well as in Hong Kong (Chan et al. 1999). In these Asian countries, Ariff et al. adopted Pope's methodology in the study of the compliance costs of public companies. Later, studies in the Asia Pacific economies are summarized and analyzed by Ariff and Pope (2002).

Several summaries of studies on compliance costs from the start in the 1930s until the beginning of the 2000s have been completed. Sandford, Godwin, and Hardwick (1989, 224–230) present the first comprehensive summary of 33 research studies covering a period of 1935 to 1989 and categorize them on the type of taxes, namely corporate taxation (9 studies), business taxation excluding corporate taxation (14), and personal taxation (10). Pope (1993, 14) notes that in the period from 1980 to 1994, there are 30 known studies on compliance costs. Allers (1994, 242–250) summarizes the studies on operating costs of taxation from 1935 to 1993 and identify 63 compliance costs research and 29 administrative costs research studies. More recently, Evans (2003, 2008) is able to identify 60 taxation operating costs studies from 1980 to 2003 consisting of 19 studies in North America, 18 in Europe, 19 in Australasian countries and 4 in other countries.

Appendix D presents a summary of the results of the compliance costs studies for corporate taxpayers from 1980 until 2013. The difference between this summary and the others mentioned above is that Appendix D only covers compliance costs studies on companies only; research on individual taxpayers and small businesses is excluded. Recent results after 2003 that are not covered in the previous summaries are included in Appendix D. The aspects covered in Appendix D are broader than those in previous summaries because it also covers the gross compliance costs for the sample and population, the cash flow and tax deductibility benefits, the net compliance costs, the ratio of compliance costs to tax revenue and GDP, the regressive nature of the costs and the allocation of the costs based on the tax the companies handle.

2.3 Recent Research Since 2000

Since 2000, research on tax compliance costs has become more international in addition to more research undertaken in the countries with more established research into this field, such as the UK, US and Australia. This period also sees the involvement of an international organization, namely the World Bank Group, in the research on compliance costs. As a result, there are at least 41 published compliance cost research studies from 2000 until 2013, as presented in Appendix D.

In the countries with a long tradition of compliance costs research, there are still researchers that focus on other areas. In Australia there are studies on the start-up costs of GST for small businesses (Rametse and Pope 2002), Tax Value Method (TVM) for business taxpayers (Evans, Tran-Nam, and Jordan 2002), transitional costs of GST for small businesses (Tran-Nam and Glover 2002a) and general compliance costs for small businesses (CPA Australia 2003). There are also two studies in New Zealand, namely on small business (Alexander, Bell, and Knowles 2004) and on both small and medium business (Brunton 2005).

Besides Australia and New Zealand, compliance costs research that focuses on others areas is also undertaken in other developed countries. In North American countries, for example, there are studies of compliance costs of large and mid-size businesses in the US (Slemrod and Venkatesh 2002a), individual taxpayers (Guyton et al. 2003), national retail tax (Merrill, et al. 2006) and small businesses (Deluca et al. 2006), while in Canada there is also research on corporations (Charron, Chow, and Halbesma 2008) and personal taxpayers (Vaillancourt 2010).

In Europe, the studies are also more prevalent. In Spain, there is research on the compliance costs of individual taxpayers after the 1999 tax reform (Lobo, M. Salinas-Jiminez, and Sanz 2001). In the UK, there is research into VAT (Hasseldine and Hansford 2002), PAYE-NIC taxes (Chittenden, Kauser, and Poutziouris 2005) and individuals (Mathieua, Pricea, and Antwib 2010). In Sweden, there is research into VAT for companies (Skatteverket 2006) as well as in Belgium on the VAT for small business (Reekmans and Simoens 2009). In addition, there are studies that cover more than one country, such as UK and Australia in personal capital gain tax (Evans 2003a), compliance costs in eleven OECD countries into business taxes (Cordova-Novion and De Young 2001), and compliance costs

on European businesses doing cross border transactions (EU Project on Corporate Tax Compliance Costs 2009).

In transition countries, there is research in Slovenia on both individuals (Klun 2004a) and companies (Klun 2004b), Croatia on small businesses as well (Blažić 2004), and Armenia on corporations (Jrbashyan and Harutyunyan 2006) in addition to several studies by the World Bank Group. In Botswana, research on VAT has been undertaken as well (Makara and Pope 2013).

The period after 2000 also sees that compliance costs have attracted the attention of the World Bank. Since 2000, they have undertaken compliance costs surveys in eleven countries with four countries still ongoing (Coolidge 2012, 253). These include surveys in South Africa of tax practitioners regarding small businesses (FIAS 2007), small and medium businesses (The Investment Climate Advisory Service 2007; USAID 2008), business in Vietnam (not published); companies in Ukraine (The Investment Climate Advisory Service 2009); as well as sole proprietors (unpublished); Yemen and Peru (unpublished); business taxpayers in Uzbekistan (IFC 2010), India and Kenya (unpublished); Armenia on business and proprietors (IFC 2011).

The compliance costs studies have also developed more in Asia. In India there are two studies which are on individual taxpayers (Chattopadhyay and Das-Gupta 2002) and corporate taxpayers (Chattopadhyay and Das-Gupta 2002a). There are also studies in Malaysia (Jabbar 2009; Ibrahim and Pope 2011) and Thailand (Chunhachatrachai 2013).

Appendix E presents a summary of compliance costs research undertaken worldwide since 2000. The summary covers the country being researched, the year, the researcher(s), the taxpayers and type of taxes being investigated, the methodology and the major results of each research project.

2.4 Results of the Research on Compliance Costs of Companies

2.4.1 Significance of Compliance Costs

One notable aspect that could be drawn from the studies of compliance costs is that the findings of different types of taxes in various countries in different times are similar. For example, in the UK, the seminal works by Sandford et al. in 1977–1987 result in three common findings, namely, that the compliance costs are high compared to tax revenue

and GDP (up to 2.2 per cent of tax revenue for corporate taxes); that the costs are regressive[2] ; and that the cash flow benefits account for a substantial reduction to the gross compliance costs (Godwin 1995, 75-76). These findings are confirmed by Evans (2003) when the results from different countries for different segments of taxpayers are compared. He notes that compliance costs are high (account for two to ten per cent of tax revenue); that tax compliance costs are regressive in term of the size of taxpayers; that they do not change over time; and that the administrative costs are less burdensome than the compliance costs (Evans 2003, 6).

As can be seen in Appendix E, since 1980, excluding small businesses, there have been 44 studies on compliance costs. Based on the type of taxes under investigation, there are 25 studies on one or several types of taxes, while the remaining 19 calculate costs related to the fulfilment of all types of taxes in a company. Among those 25 studies on specific taxes, corporate income tax stands as the type of tax that is most investigated compared to other type of taxes, accounting for 12 research studies, followed by Value Added Tax (VAT)/ wholesale taxes (WST)/ retail taxes (8), employee-related taxes (4) and direct tax (1). Based on geographic location, ten research studies are conducted in European countries, eleven in North American countries, twelve are in Australia, New Zealand, and Asian countries, three in transition countries (Slovenia, Armenia, and Ukraine), and eight studies investigate taxation in other countries.

From Appendix E, it is apparent that the overall compliance costs are high. Total compliance costs as a percentage of tax revenue in the Netherlands is 4 per cent (Allers 1994), while in Sweden it is 1.32 per cent (Malmer 1995), in US 3.2 per cent (Slemrod and Blumenthal 1996), Canada 1.5 per cent (Plamondon and Zussman 1998) and 2.7 per cent (Charron, Chow, and Halbesma 2008), Australia overall 9.3 per cent (Evans et al. 1996) and public companies only 11.4–23.7 per cent (Pope, Fayle, and Chen 1991), Slovenia 4.22 per cent (Klun 2004b), Armenia 11.5 per cent (Jrbashyan and Harutyunyan 2006). The magnitude of the costs compared to the overall economy (GDP) is also significant. For example, in Ukraine the ratio is one per cent (The Investment Climate Advisory Service 2009), New Zealand 2.5 per cent (Sandford and Hasseldine 1992), Australia overall 1.02 per cent (Evans et al 1997) and public companies only 0.25–0.53 per cent (Pope, Fayle, and

[2] The term regressive means that the larger the companies' size (measured by annual turnover or the number of employees), the smaller the compliance costs per unit (i.e. per dollar sales or per employee).

Chen 1991), Canada 0.4 per cent (Plamondon and Zussman 1998), and the Netherlands 1.5 per cent (Allers 1994).

In some cases, the compliance costs are considerable compared to tax revenue, especially for smaller companies. For example in Croatia, the compliance costs for small business is surprisingly high compared to tax revenue from those taxpayers, as it reaches as high as 98 per cent of gross compliance costs, or 96 per cent of net costs after calculating cash flow benefits and tax deductibility benefits (Blažić 2004, 13). Other findings in Croatia include the regressive nature of the costs related to the size of the company, the biggest proportion of owners' time, and the domination of income tax and VAT in the costs. The costs account for 0.8 per cent of the GDP.

However, there is also a view that comparing the compliance costs to the tax revenue could be misleading, especially for small business. Research in the US for small business undertaken by Deluca et al. (2006) does not compare the compliance costs and tax revenue, arguing that the comparison is not accurate because most taxable activities of these businesses are passed to the owners of these businesses. Instead they suggest that the better way is to combine both the costs and the tax revenue of the owners and the businesses and the comparison between the two would be more accurate (83). Probably because of the same reason, the comparison between the compliance costs and the GDP is not analyzed either. The study itself finds that the biggest contributor is time spent (74), a result similar to a study in Armenia (Jrbashyan and Harutyunyan 2006). In the category of money spent, the biggest contributor is the payment to the paid preparers.

2.4.2 Allocation and Offsets of Compliance Costs

Comparison between countries shows that there is little evidence that a same type of tax dominates the overall compliance costs. Payroll taxes dominate the costs in the Netherlands, accounting for 43 per cent of the costs (Allers 1994), which is comparable with 45 per cent in Canada (Plamondon and Zussman 1998; Charron, Chow, and Halbesma 2008). This is different from the results in Sweden where the income tax accounts for 58 per cent of the costs (Malmer 1995) and in Australia with 42 per cent (Evans et al. 1996). Value Added Taxes (VAT) dominates the costs in Slovenia 66.9 per cent (Klun 2004b) and Ukraine (The Investment Climate Advisory Service 2009).

The majority of the research shows that the biggest proportion of the costs is the time spent for in-house personnel. This is shown in different countries, such as the Netherlands

(Allers 1994), Sweden (Malmer 1995), US (Slemrod and Blumenthal 1996), Australia (Evans et al. 1996), New Zealand (Sandford and Hasseldine 1992), India (Chattopadhyay and Das-Gupta 2002a), Slovenia (Klun 2004b) and Ukraine (The Investment Climate Advisory Service 2009). Conversely, in three countries in Asia, namely Malaysia, Hong Kong and Singapore, external fees dominate the costs with percentages of 72, 58 and 70 respectively (Loh, Ariff, Ismail, M., et al. 1995; Ariff, Loh, and Talib 1995; Ariff, Ismail, and Loh 2002; Chan et al. 1999).

When analyzed based on the type of taxes, the costs for specific taxes also are significant compared to the revenue from those taxes. For example, for employee related taxes (PAYE, payroll tax, NI contribution), in England, the ratio is 32.8 per cent for the smallest companies and 0.7 per cent for larger companies (Sandford, Godwin, and Hardwick 1989), whereas overall it is 3.5 per cent in Canada (Vaillancourt 1995) and 1.7 per cent in Australia (Pope, Chen, and Fayle 1993). For taxes on sales (VAT, retail sales tax, WST[3]), the ratio of the costs compared to related tax revenue is relatively bigger. In UK, the ratio is 3.69 per cent for gross costs (before compensating for the cash flow benefits), or 0.98 per cent for net costs (Sandford, Godwin, and Hardwick 1989), whereas it is 3 per cent in Sweden (Skatteverket 2006), 3.09 per cent in the United States (PwC 2006), 5.85 per cent in Canada (Vaillancourt, Clemens, and Palacios 2008) and 1.9 per cent in Australia (Pope, Fayle, and Chen 1993).

The costs of corporate income tax are also significant compared to corporate income tax revenue. In the UK, the ratio is 2.22 per cent (Sandford, Godwin, and Hardwick 1989), whereas it is 3.2 per cent for big businesses in the United States (Slemrod and Blumenthal 1996) and 28–29 per cent for smaller businesses (Slemrod and Venkatesh 2002b), 2.7 per cent for big businesses in Canada (Erard 1997), 11.4–23.7 per cent for public companies in Australia (Pope, Fayle, and Chen 1991) and 14 per cent for Australian companies in general (Pope, Fayle, and Chen 1994). The costs are relatively greater in transition countries, in which the ratio is 4.22 per cent in Slovenia (Klun 2004b) and 11.5 per cent in Armenia (Jrbashyan and Harutyunyan 2006). However, it is relatively small in India with a percentage of between 0.62 and 0.72 per cent (Chattopadhyay and Das-Gupta 2002a).

[3] Replaced by the Goods and Service Tax (GST) in Australia in 2000.

From Appendix E it can be seen that cash flow benefits are significant for companies. For example, in the UK, the cash flow benefit is even bigger than the costs of the PAYE and National Insurance contributions (Sandford, Godwin, and Hardwick 1989). For VAT, the benefit is GBP580 million of GBP791 million of costs, or 73 per cent. Later research by the National Audit Office shows that the cash flow benefit is GBP750 million compared to GBP1.6 billion costs, or 47 per cent. A higher percentage is identified by a study in the Netherlands showing that the cash flow benefit accounts for 84 per cent of the costs of all taxes (Allers 1994). A relatively smaller percentage is found in the US, where the cash flow benefit is 19 per cent of total compliance costs of retail taxes (PwC 2006), and in India where the percentage is 48–53 per cent (Chattopadhyay and Das-Gupta 2002a). Also, in Australia it is AUD954 million out of AUD1,241 million costs or 71 per cent of public companies' income taxes (Pope, Fayle, and Chen 1991), and 59 per cent of FBT (Pope, Fayle, and Chen 1993). Conversely, there is a case where the benefit actually exceeds the cost, as identified in Australia for PAYE, where the benefit is AUD839 million compared to the costs of AUD629 million (Pope, Chen, and Fayle 1993). There is also a negative cash flow benefit, where the benefit raises the costs, which is found for WST in Australia (Pope, Fayle, and Chen 1993). Also in Australia for companies' income tax, the cash flow benefit is AUD1,193 million while the costs are AUD3,245 million (Pope, Fayle, and Chen 1994), or 37 per cent. A later study in Australia shows that cash flow benefit for companies in Australia is AUD1,781 million out of AUD8,874 costs (Evans et al. 1996), or 20 per cent. In New Zealand the cash flow benefits for PAYE and GST account for 27 per cent and 39 per cent respectively (Sandford and Hasseldine 1992).

In the United States, besides the cash flow benefits, which is called the "net float" that have been recognized as the benefit to taxpayers for complying with tax requirements, there is another benefit that could be enjoyed by the taxpayers, namely vendor discount. This term refers to a discount granted by the state government to retailers for their punctual tax remittance. In the US, both benefits are regressive in terms of the turnover and account for 0.60 per cent over all retailers, 1.11 per cent for small, 0.82 per cent for medium, and 0.54 per cent in large retailers (PwC 2006, 9). Compliance costs account for 3.09 per cent of total retail sales tax collected for all retailers, 13.47 per cent for small retailers, 5.20 per cent for medium retailers, and 2.17 per cent for large retailers (12). Gross compliance costs as a percentage of total taxable sales are also regressive with the average of 0.82 per cent for small retailers, 0.32 per cent for medium, and 0.13 per cent for large retailers (13).

In Canada, Charron et al. (2008) use a different method to calculate national compliance costs. While almost all tax compliance research calculates the national compliance costs by extrapolation based on the number of companies in each stratum, the research in Canada uses instead the compliance costs per employee as the base for the extrapolation. After the cost per employee in the sample is obtained, the national cost is calculated by multiplying the costs per employee by the number of workers employed nationally in each of the five business size segment (Charron, Chow, and Halbesma 2008, 15). However, this calculation could lead to exaggeration in the calculation of the national compliance costs, particularly in the largest segment of business with a 5.4 million labor force (15) because it is assumed that the level of compliance costs in a company is a direct function of the number of employees, where it is shown elsewhere that the compliance costs are regressive in terms of the number of employee, even within one segment of companies (for example in Slemrod and Blumenthal [1996] for large business in the US and Pope [1991] for public companies in Australia).

2.4.3 Comparison of Compliance Costs for Different Aspects

Among the research on the compliance costs for companies, it seems that there are only two research studies on Singapore (Ariff, Loh, and Talib 1995; Ariff, Ismail, and Loh 2002) on corporate taxpayers that are able to accurately compare the compliance costs in a particular country for two different years using similar survey methodology. While the first study is the pioneer in the area of compliance cost research in Singapore, the second addresses a specific subject, which is the impact of tax simplification on the compliance costs. In the first survey the usable sample is 47 out of 200 companies while in the second survey the sample is 62 of 234 companies. The researchers admit that the number of samples would not be significant to represent all corporations (Ariff, Loh, and Talib 1995, 224; Ariff, Ismail, and Loh 2002, 242). The first survey shows that the average compliance costs is SGD78,396 per company (Ariff, Loh, and Talib 1995, 217), and this figure decreases in the second survey to SGD54,615 or a 30 per cent decrease, as the impact of tax simplification (Ariff, Ismail, and Loh 2002, 235). The decrease is mostly contributed by the decrease in computational costs. The decrease is more benefiting to the larger companies than to smaller companies.

Similar to the studies in Singapore discussed above, there are also two research studies in the US that investigate compliance costs for the same segment, namely large taxpayers, for two different years, undertaken by Slemrod and Blumenthal (1996) and Slemrod and

Vekantesh (2002). The population of both surveys is the taxpayers registered in the Large and Mid-Size Business (LMSB) Division of the IRS in the US, but the companies in the 1996 study are greater in size than the companies in 2002. This is because the companies in the 1996 survey are managed by the Coordinated Industry Case program (CIC) in the LMSB Division which deals with the 1,350 largest companies, while the 2002 surveys deals with the rest in the LMSB division (Slemrod and Venkatesh 2002, 1).

Even though there are differences in size and time, the features of the compliance costs are similar. The composition of the costs based on the source of expenditure are similar with the 1996 survey finding that the composition of the compliance costs is 55 per cent for internal staff costs, 35 per cent for internal non-staff costs and 15 per cent for external costs (Slemrod and Blumenthal 1996, 418). Meanwhile, in the later survey, the composition is 59, 17 and 24 per cent for internal staff costs, internal non-staff costs and external costs, respectively (Slemrod and Venkatesh 2002, 18–19). The components of the costs based on the taxes the companies manage are also similar with the 1996 survey finding that 70 per cent of the expenditures are related to federal taxes while the remaining 30 per cent are for local taxes (Slemrod and Blumenthal 1996, 418), while in the 2002 the composition is 80 and 20 per cent, respectively (Slemrod and Venkatesh 2002, 23).

However, despite those similarities, both surveys produce a number of different findings. Because the size of the companies is different, consequently the compliance costs per company are different as well. In the 1996 survey average compliance costs per company is USD1.57 million (Slemrod and Blumenthal 1996, 418), while in the 2002 survey the costs are USD254,451 (Slemrod and Venkatesh 2002, 15). The stark difference is in the ratio of the national compliance costs compared to tax revenue from the respective segments. In the 1996 survey total compliance costs account for 2.6 per cent of tax revenue (Slemrod and Blumenthal 1996, 420), while in the 2002 survey, the proportion is much higher at 28 per cent (Slemrod and Venkatesh 2002, 23). This strongly suggests that not only are the compliance costs regressive in terms of the overall companies' size (i.e. from small companies to the large ones), but they are also regressive for the same segment of taxpayers (i.e. large companies) with different sizes.

From all research on companies' compliance costs, there are only four researches studies by Allers (1994), Evans et.al (1994), Chattopadhyay and Das-Gupta (2002) and Blazic (2004) that calculate tax deductibility benefits in addition to cash flow benefits commonly

measured by the other researchers. The methods of calculating tax deductibility benefits are different. In the Australian (ATAX) study, because the appropriate data for precise calculation is not available, it is approximated that 50 per cent of the companies are able to benefit from this tax deduction (Tran-Nam et al. 2000, 238). In India, the Netherlands, and Croatia, the calculation is more straightforward by simply multiplying the income tax rate with the tax compliance costs for companies (Chattopadhyay and Das-Gupta 2002b, 10; Allers 1994, 137; Blažić 2004, 12).

2.4.4 Results of the World Bank Studies

The studies by the World Bank result in a number of notable methods and findings. Regarding the method, the studies by the World Bank Group utilize interview as the method of collecting data, instead of mail surveys mostly used in other surveys, as noted by Evans that almost two-thirds of the compliance costs studies from the 1980s until the beginning of 2000s use postal surveys wholly or partially (Evans 2003, 5). The sample of the studies by the World Bank Group could be considered as highly representative of the population because the sample frames are chosen carefully with several strata being used. For example, in South African studies, a sample frame consisting of 475 strata, covering 7 economic activities, three income categories, and 25 provinces/oblasts (ICAS 2009). In Ukraine, a sample frame of 1,004 respondents is obtained from three strata, namely, income, sector, and tax regime (The Investment Climate Advisory Service 2009, 213).

The findings of the studies by the World Bank Group are comprehensively summarized by Coolidge (2012, 256–260). The compliance costs in developing countries are found to be significantly regressive, as shown by the ratio of the costs compared to the turnover being 0.1 of one per cent for medium and large business and up to fifteen per cent for small business. The studies also find that the requirement of tax accounting is one of the sources of high compliance costs. Tax accounting software and e-filing in a number of countries being researched could contribute to the compliance costs reduction. Another contributor to high compliance costs is the occurrence of tax audit and inspection, official and unofficial. Lastly, while corruption and tax evasion are viewed as common in developing countries, a number of countries show administration with high integrity, support and competency.

Even though the studies by the World Bank confirm the findings of the compliance costs research in different countries as summarized in Appendix E, that has been discussed

above, the studies by the World Bank are not concerned with two other variables frequently explored in the compliance costs studies, namely, the benefits obtained by the taxpayers and the magnitude of the costs compared to the tax revenue or the GDP. The benefits for the taxpayers include managerial benefit enjoyed by the taxpayers who comply with the tax requirements; cash flow benefits because of the time difference between the collection of the taxes by the taxpayers and the remittance of said taxes to the government; and tax deductibility benefits because of the tax deductibility nature of the compliance costs. Even though the managerial benefits theoretically exist, it is difficult to quantify, and generally empirical studies do not include this benefit when quantifying the compliance costs, except for two studies by Sandford and by the National Audit Office in the UK (Tran-Nam et al. 2000, 232); therefore, the omission by the World Bank studies is a common practice.

The same analysis also applies, to different degrees, to the cases of the cash flow benefits and tax deductibility benefits. The surveys by the World Bank on the amount of the compliance costs generally asked about the time and costs of the compliance activities based on the type of taxes and type of activities—book keeping practice, computer use and the experience with tax audit or inspection (Coolidge 2012, 252), but do not examine the difference in the time between the tax collection and the tax remittance in each country, therefore the possible cash flow benefits could not be estimated. This is also common in the other studies summarized in Appendix E in which among 44 studies on the compliance costs of corporate taxpayers, only 13 studies calculate the cash flow benefits. Likewise, the tax deductibility benefits are not discussed in the World Bank studies; this is the same practice with other studies except those by Tran-Nam et al. (2000), Allers (1994) and Chattopadhyay and Das-Gupta (2002a), as discussed above.

The omission of the calculation of the ratio of tax compliance costs to tax revenue and the GDP in the World Bank studies slightly diminishes the value of the studies because the studies could not fully picture the overall burden of taxation to the economy. Even though the comparison between tax compliance costs and tax revenue has to be treated carefully because of a number of factors as warned by Sandford et al. (1989, 20), the ratio could provide useful insights, especially when comparing the ratio in one country at different times. Likewise, the report by the World Bank could be more comprehensive had the ratio of the costs to the GDP was analyzed.

Despite the absence of a number of parameters discussed above, the studies by the World Bank provide a number of insights. First, with similar research methodology, the studies are able to compare the costs in different countries. For example, it is found that the total hours of staff time needed per year in Armenia is 669, Nepal 508, Peru 632, South Africa 106, Ukraine 1870 and Vietnam 1030 hours (Coolidge 2012, 254). Second, the tendency of using external parties to fulfill tax obligations differs from one country to another. In the transition countries, taxpayers rely more on internal staff while in Peru, it is mandatory to hire certified accountants, and in South Africa, the use of external consultants varies between companies (Coolidge 2012, 262). Lastly, in developing countries, tax audit and inspection are a more important concern than in developed countries, because in developing countries there is no adequate risk-based audit and no reliable self-assessment system (264).

2.4.5 Other Results

Corruption, or to be more precise, bribing, is often viewed as one of the components of the compliance costs, especially in a developing country, yet so far there are only two research studies investigating this, namely in India and Armenia. The study of Indian corporations (Chattopadhyay and Das-Gupta 2002a), although admittedly having a low response rate, finds that eight of 14 responding to the question (out of 45 companies participating in the survey) confirm that they know other similar companies pay bribes to tax officials. However, the researchers could not quantify the amount of the bribes because of the low response rate (26).

A study in Armenia (Jrbshyan and Harutyunyan 2006) is more conclusive than that in India in regards to corruption. The study is able to quantify the amount of bribes, which is named “negotiation costs” in the survey due to its sensitivity. On average, 2.23 per cent of respondents admitted that they paid negotiation costs amounting to AMD324,286 or 1.9 per cent of total compliance costs (36). In a later study by the World Bank, corruption is also a factor that becomes a concern to 30 per cent of respondents in Armenian tax system (IFC 2011, 9).

2.5 Prior Research on Large Companies

2.5.1 Domestic Research

In Indonesia, to the best of the current author's knowledge, the only scientific research with sound research methodology was conducted by Adinur Prasetyo[4](2008). In this research Prasetyo attempts to investigate whether uniformity, perception and the size of a company affect the compliance costs of public companies in Indonesia. He also attempts to find out what is the minimum amount of compliance costs where the compliance is optimum (Prasetyo 2008, 8–9). Uniformity is the degree of similarity between accounting rules and tax regulations while perception is the degree of similarity between taxpayers and tax officers' views on tax regulations.

The population of the survey is all 339 companies registered on the Indonesia Stock Exchange (IDX). The questionnaire is sent to all the companies (126); the method of the sending is not mentioned. The usable response is 250, showing a response rate of 74 per cent. The detail of this prior research is presented in Table 2.1.

Table 2.1: Research on Large Companies in Indonesia by Prasetyo (2008)

Aspects	Prior research
Year researched	2006
Objectives	The effects of perception, uniformity and size of company on compliance costs
Population	Public companies listed in the IDX
Population	339
Number in sample	339
Usable sample	250
Response rate	74%
Method	Survey*

Note: *It's not mentioned how the questionnaire was distributed. Most probably it was handed directly to the respondents, because it is stated that among those who did not respond were 9 companies whose offices are located out of Jakarta or "island" (126).

There are a number of main results that are related to compliance costs. First, uniformity and perception have a negative correlation with compliance costs, that is, the higher the uniformity and perception, the lower the compliance costs. Second, there is a positive correlation between the size of companies and the amount of the compliance costs, that is, the bigger the company in terms of annual turnover, the amount of assets and the amount

[4] Prasetyo's research formed the of his PhD dissertation at the University of Indonesia.

of capital the greater the compliance costs. Third, there is a negative correlation between tax compliance and compliance costs, that is, the greater the costs, the lower the compliance (Prasetyo 2008, 190–191).

The research show that based on the size of the companies in term of annual sales, the amount of the compliance costs are greater according to the size of the companies as shown in Table 2.2.

Table 2.2: Results of the Prior Research in Indonesia by Prasetyo (2008)

Annual sales (USD million)	Number of companies	Compliance costs (USD million)	Compliance costs as percentage of sales, %
3–10	16	<0.004	0.03
11–50	52	0.004-0.21	0.36
51–550	115	0.22-0.55	0.13
560–5,490	62	0.56-5.49	0.10
5,500–21,970	5	5.49-21.97	0.10

Source: Prasetyo (2008, 163). Note: the last column is the current author's calculation based on the mid-point of the annual sales and the compliance costs.

2.5.2 International Research

The research on the tax compliance costs of large companies to date could be classified into two groups, namely one targeting specifically large companies and another targeting company that can be categorised as large companies if the definition of large companies is broadened to include the companies that are registered on the stock exchange in their respective countries. This is because companies registered on the stock exchange are indeed large in size.[5]

Included in the first group of research that specifically targets large companies are research in the United States (Slemrod and Blumenthal 1996), Canada (Erard 1997), and most recently Australia (Evans, Lignier et al. 2013). Meanwhile the research that targets public companies includes research in Australia (Pope, Fayle, and Chen 1991), Malaysia (Loh, Ariff, Ismail et al. 1995), Singapore (Ariff, Loh, and Talib 1995; Ariff, Ismail, and Loh 1997), and Hong Kong (Cheung, Chan et al. 1999).

[5] For example, the Australian Securities Exchange (ASX) requires that in order to be listed, a company has to have at least $3 million net tangible assets or $10 million market capitalisation. Source: Australian Securities Exchange. (2013). *Is your organisation ready to list?* Retrieved 15 April, 2013, from http://www.asx.com.au/professionals/preparation.htm.

Apart from these two groups of research on large companies, there are research studies related to large companies but do not exclusively discuss them. Included in this type of research is the one undertaken in European countries (European Commission 2004). The results of this research could not be fully analysed here because the discussion in the European countries research paper, such as analysis on the components and the nature of the costs, does not distinguish between different sizes of companies (small, medium or large). Also included in this type of research is one in the US that targets medium and large business (Slemrod and Venkatesh 2002), but by the researchers' admission this research is more appropriately seen as research on medium-sized business because the samples are obtained from a division in the IRS that manages medium-size business (Slemrod and Venkatesh 2002, 1). There is also a case study on a large company in the US, namely Hewlett-Packard Company, investigating the costs to comply with federal taxes (Seltzer 1997). This case study only concerns one company; therefore a general conclusion could not be drawn.

Consequently, in total there are eight research studies that target large corporations if the definition of large companies is broadened to include public companies. Grouped geographically, there are two research studies in North America, two in Australia, and four in Asia. All the research is related to 1990's, except one in Australia that is related to 1986/87 (in fact, the first research on the large companies) and another in Australia in 2013. All the research uses mail surveys as the method of data collection, except in Australia 2013 which uses an internet-based survey. All the research investigates one type of tax only, namely the income tax, except the most recent in Australia where it investigates all type of taxes. The populations of these studies vary from 200 in Malaysia to 1,850 companies in Australia (2013). The response rate varies from the lowest 16 per cent in Malaysia to 42 per cent in Australia (2013).

The summary of the types of taxes investigated, the types of taxpayers being targeted, the total population, the number in the sample, the method used, and the response rate is presented in Table 2.3.

Table 2.3: International Research on Large Companies

Aspects	OECD Countries				Asian countries			
	Australia	USA	Canada	Australia	Singapore 1994	Malaysia	Singa-pore 1996	Hong Kong
Year	1986/87	1992	1995	2013	1993/94	1995	1995	1995/96
Type of taxpayer	Public comp.	Large business	Large business	Large corp.	Public comp.	Public comp.	Public comp.	Public comp.
Type of tax	Income tax	Income tax	Income tax	All taxes	Income tax	Income tax	Income tax	Income tax
Method	Mail	Mail	Mail	Electronic mail survey	Mail	Mail	Mail	Mail
Popu-lation	1,837	1,672	250	Pop: 1850 Sample: 187	200	300	234	496
Usable Response	298	365	59	79	47	48	62	58
Response rate, %	17	27.5	24	42	33	16	26	15

Source of Tables 2.3 to 2.7: respective research in each country (Pope, Fayle, and Chen 1991; Slemrod and Blumenthal 1996; Erard 1997; Evans, Lignier, and Tran-Nam 2013; Ariff, Ismail, and Loh 1997; Ariff, Loh, and Talib 1995; Loh et al. 1997; Chan et al. 1999).

The subjects being investigated can be grouped into quantitative and qualitative aspects. The quantitative aspects include the costs per company in fulfilling its tax obligation, the components of the costs, the costs based on the sectors, the benefits of the costs, and the national compliance costs. Meanwhile, the qualitative aspects cover a range of topics, including the degree of complexity in the current tax system, the causes of complexity, the reasons of using tax consultants, the effect of income tax in the tax planning process, and ways to improve the current tax system.

The results of the international research show that there is a vast difference between countries in the level of estimated compliance costs as presented in Table 2.4. The average compliance costs are inflation and exchange rate adjusted to 2010.

Table 2.4: Compliance Costs for Large Companies in Selected Countries

Country*	Year Researched	Compliance Costs In Year Researched (National Currency)	Inflation-adjusted Compliance Costs in 2010 (National Currency)	Inflation-adjusted Compliance Costs in 2010 (AUD)
USA	1992	1,565,000	2,432,000	2,393,000
Canada	1995	925,112	1,230,880	1,210,662
Australia 1986/87	1986/7	271,598	609,978	609,978
Malaysia	1994/5	68,836	99,858	31,865
Singapore 1994	1994	78,396	97,906	74,920
Singapore 1996	1996	54,615	66,138	50,611
Hong Kong	1995/6	346,483	363,842	46,037
Australia 2013 (all taxes)	2013	3,008,000	2,792,950	2,792,950

Note: * All compliance costs figures are related to income tax, except in Australia (2013) which is for all taxes.

Table 2.4 shows that the average compliance costs per large company ranges from around AUD31,000 in Malaysia to more than AUD2 million in the US for income tax only. Meanwhile the only figure for all taxes appears in Australia with more than AUD2.7 million. It is also apparent that for public companies in Asia, the compliance costs are comparable, all below AUD80 thousand—the lowest being in Malaysia and the highest in Singapore.

Table 2.4 shows that the proportion of the components of the costs in OECD countries is different from those in Asian countries. In OECD countries, except in Australia in the 1986/87 research, internal elements dominate the costs, with the proportion ranging from 66 per cent in Australia 2013 to 85 per cent in the US. Conversely, it is the external elements that dominate the costs in Asian countries, ranging from 58 per cent in Singapore 1996 to 72 per cent in Malaysia. Table 2.5 also shows that most internal activities in OECD countries are undertaken by their own staff, ranging from 58 per cent in the US to 86 per cent in Australia 1986/87. The data are not available for Asian countries.

The components of the costs are generally distinguished by the scope of the expenditures and the purpose of the expenditure. Based on the scope, the compliance costs could be divided into two components, namely internal (staff) and external costs (tax agents). Based on the purpose of the expenditure, the compliance costs could be divided into two groups, namely computational purpose and planning purpose. The proportion of each component of the compliance costs for large companies among countries is presented in Table 2.5.

Table 2.5: Components of Compliance Costs in Selected Countries

Aspects	USA 1992	Canada 1995	Australia 1986/87	Australia 2013*	Malaysia 1994/5	Singapore 1994	Singapore 1996	Hong Kong
Internal vs. external costs, ratio	85:15	80:20	46:54	66:34	28:72	42:58	42:58	30:70
Internal costs: staff vs. non-staff, ratio	58:42	69:31	86:14	70:30	n/a	n/a	n/a	n/a
Computational vs. planning costs, ratio	70:30	38:62[a]	42:58	74:26	61:39	51:49	50:50	74:26
Computational costs: internal vs. external, ratio	83:18	71:29[b]	63:37	71:29	27:73	40:60	44:56	29:71
Planning costs: internal vs. external, ratio	71:29	58:42	33:67	50:50	30:70	44:56	39:61	33:67

Note: a. Included in the computational costs here is keeping records and filing, and the costs for audit, appeal, and litigation. b = author's calculation. *All compliance cost figures are related to income tax, except in Australia (2013) which is for all taxes.

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Regarding the purpose of the expenditure, the computational purpose dominates the costs in all countries, except in Canada and Australia 1986/87 where the planning purpose is greater and in Singapore 1996 where the proportions are the same. The domination ranges from 51 per cent in Singapore 1994 to 74 per cent in Australia 2013 and Hong Kong. However, computational activity in Asian countries is mostly undertaken by external parties (i.e. tax agents), which is different from that in OECD countries where it is mostly undertaken by the companies' staff. Planning activity in all countries is mostly undertaken by external parties, except in the US and Canada where it is conducted by internal staff and in Australia 2013 where it is conducted equally by internal staff and tax agents.

Among the research on tax compliance costs of large companies, there are only three research studies, namely in the USA, Canada, and Hong Kong, that investigate the sectors with the highest and the lowest compliance costs. Both in the US and Canada, the mining sector place as the sectors bearing the most compliance costs compared to other sectors. The sector with the lowest compliance costs in the US is the wholesale and retail trade sector, while in Canada it is not investigated. Meanwhile in Hong Kong, the sector with the highest compliance costs is the financial and investment sector; and the sector with the lowest compliance costs is the manufacturing sector. These figures are presented in Table 2.6.

Table 2.6: Sector with the Lowest and Highest Compliance Costs, Selected Countries

Aspects	USA 1992	Canada 1995	Hong Kong 1995/6
Highest costs	Mining	Mining, oil, and gas	Financial and investment
Lowest costs	Wholesale and retail trade	n/a*	Manufacture

Note: *The sector with the lowest compliance costs in Canada is not defined because the difference among sectors in Canada is not significant except for the mining, oil, and gas sector (Erard 1997, 6).

A number of research studies calculate the magnitude of the costs in terms of their proportion of the countries' total tax revenue and GDP. In the US, the compliance costs of large companies account for 3.2 per cent of tax revenue, below those in Canada at 4.6 to 4.9 per cent, and significantly lower than in Australia at 11.4 to 23.7 per cent of tax revenue. Meanwhile, in Malaysia compliance costs of large companies only account for 0.36 per cent. There is only one study—in Australia—that the compliance costs of large companies are compared to the GDP, showing a proportion of 0.25 to 0.53 per cent. These figures are presented in Table 2.7.

Table 2.7: Magnitude of Compliance Costs in Selected Countries

Aspects	USA 1992	Canada 1995	Australia 1986/87	Malaysia 1994/5
Compliance costs* as % of tax revenue	3.2	4.6–4.9	11.4–23.7	0.36
Compliance costs as % of GDP	n/a	n/a	0.25–0.53	n/a

Note: * Gross compliance costs.

Finally, the finding on the allocation of the costs for different type of taxes can only be obtained from one country, namely Australia 2013, because the study is the only research investigating compliance costs of all taxes. The allocation of the costs is 58 per cent for company income tax, 14 per cent for VAT and 29 per cent for other taxes such as property tax and stamp duty.

2.6 Government Policies Regarding Compliance Costs

Returning to the four principles of a good tax system, especially regarding the principle of "certainty" and "convenience", what should the government do regarding the compliance costs? In order to answer this, Sandford, Godwin, and Hardwick (1989, 209–219) suggests that the government should undertake four steps, namely explicitly recognise the importance of the costs; avoid the reduction in the administrative costs by shifting the costs to the taxpayers; set policies to reduce compliance costs, especially for smaller taxpayers; and to be prepare to compensate for the compliance costs. As discussed previously, regarding the relationship between compliance costs and government policy, Pope (1992, 2–7) explores more and offers six stages to identify. These stages comprise the absence of the interest of the topic of compliance costs, the recognition of the costs qualitatively, the quantitative measurement of the costs, the policy recognition, the implementation and the effectiveness of the policies, and the continual monitoring of the compliance costs .

The implementation of policy regarding compliance costs varies from one country to another. In the UK, there is a document that has to be prepared by the regulators before a policy is proposed, namely the Regulatory Impact Assessment (RIA). This document contains the assessment of the benefits and the costs of the proposed regulations, the options that have been considered and risk analysis, as well as the parties affected by the regulations and the urgency of the regulation (Rice 2001, 340). For example, with the introduction of self-assessment system in 1996/97 in the employer element only, it was

estimated that the policy would cost GBP90 million as a one-time costs and GBP24 million recurring costs for business (Rice 2001, 347).

Similar to that in the UK, Australia has also required a document, namely the Regulatory Impact Statement (RIS) since 1996, including for policies on taxation. This RIS contains a number of components including the policy objectives, the options, the costs and benefits of each option, the identification of the parties affected, the compliance costs quantitatively and qualitatively, the cash flow benefits or costs, the administrative costs to the government, the economic costs, and the conclusions (D'Ascenzo 2001, 353–57).

In the OECD, there is a disparity in the application of RIA or RIS among the members. As investigated by Walpole (2001, 369–88), among member countries, the document is extensively used by five members (Australia, European Union, New Zealand, UK, US), partially used in nine countries (Denmark, France, Germany, Greece, Mexico, the Netherlands, Norway, Spain and Switzerland), and minimally used in seven countries (Austria, Canada, Ireland, Japan, Luxembourg, Portugal and Sweden).

In developing and transition countries, the application of RIA is beginning to take form in low and middle-income countries, but the method is not wholly adopted and the application is not systematic across the governments (Kirkpatrick and Zhang 2004). Based on the research in 40 countries (Indonesia not included), the study finds that RIA is applied to all or some new regulations in eight countries in Asia, eleven in Africa, six in Latin America and five transition countries. The RIA is never applied in three countries in Africa, three in Latin America and one transition country. In addition, there is one country in Asia and two in Africa who respond with “don’t know” about the application (Kirkpatrick and Zhang 2004, 6).

In Indonesia, to the best of the author’s knowledge, there is no application of an RIA or similar document in the taxation regulation process.

2.7 Summary

The importance of compliance costs in the tax system was recognised long ago in 1776, but systematic studies, for a number of reasons, only started in the 1930s in North America, followed by those in Europe. The most prominent figure in the topic is the late Cedric Stanford who completed research on the costs of the entire UK tax system in the 1970s and 1980s and inspires similar research in other countries and continents. The spread of

compliance costs studies now reaches all regions including Asia and Africa, and it also attracts international organisations to undertake similar research.

The findings of different tax compliance costs research on companies show a number of similarities as well as differences between countries. The similarities include the finding that the costs are significant in terms of the monetary value, the percentage of tax revenue and the percentage of GDP. The other aspect is that the costs are regressive in term of the size of the companies, which exhibits the economies of size. The dissimilarities include the difference in what type of tax being dominant contributor to the compliance costs.

Research on large companies is rarely undertaken as shown in that up to the present day, there are only two research studies that are specifically aimed at investigating this aspect. Adding the research on public companies, which in a sense are large companies as well, there are eight studies, including in Indonesia. The results of this research show that the national compliance costs are high, accounting for 3.2 per cent to 23 per cent of tax revenue (except in Malaysia with only 0.6%). That research shows little indication that the features of the costs are similar in different countries. In most OECD countries, the internal costs are dominant, while in Asian countries, the external costs account for the bigger percentage. Regarding the purpose of the expenditures, research in some countries suggests that it is mainly for computational purposes while in other countries the larger portion is for planning purposes.

Government policies toward the potential compliance costs of a new tax proposal differ from one country to another. Several OECD countries are more advanced in this matter by requiring the regulators to submit a costs and benefits analysis of new tax regulations when proposing them. This practice is only partially applied or not applied in developing and transition countries, including Indonesia.

Chapter 3. Research Design and Methodology

3.1 Introduction

This chapter discusses the research design and methodology to provide a comprehensive illustration on how the research is planned and undertaken. Also discussed in this chapter is how the data obtained from the research are measured, analysed and presented to offer a clear picture on what this research is trying to aim.

This chapter starts with Section 3.2 on the design of the research. It covers a discussion on the framework that is used as the base of the research, followed by the methodology that suits the framework, and the main method by which the research is undertaken, namely a mail survey. Also discussed in this section is the use of secondary methods of collecting the data, namely, the focus group discussions and the in-depth interviews. Section 3.3 covers the discussion on the implementation of the research design, from the technical aspects of the mail survey to the detailed points of the questionnaires. It is then followed by Section 3.4 that examines the population of the survey, the sample that is drawn for the research, the representativeness of the sample and the measures to address non-response bias. Section 3.5 explains how the data obtained from the research are measured, analysed and presented to provide clearer points. This chapter concludes with a summary in Section 3.6.

3.2 Research Design

3.2.1 Research Framework, Methodology and Method

This current research design is based on the positive paradigm, meaning that the knowledge obtained from the research is derived solely from the empirical evidence gained in the research, and separated from the researcher's views or beliefs (McKerchar 2010,72). This is in contrast with the interpretivism paradigm where the results of the research are interpreted based on the researcher's views or beliefs. In this current research, the knowledge of the tax compliance costs of large companies in Indonesia is derived from empirical evidence obtained from the taxpayers and other sources such as tax consultants, as well as published and unpublished statistical data.

The methodology used in this research is quantitative. It means that this research is working with numbers, from the determination of the population, sample framing, calculation, aggregation, analysis and presentation. This methodology is suitable with the framework used, which is the positivism paradigm as outline before, corresponding with McKerchar's (2010, 71) notion that "positivism will be reflected in quantitative methodology".

After the methodology is determined, the next step is to determine what method is the most appropriate to achieve the research objectives. The textbooks on research methodology offers a number of methods available, for example Rea and Parker (2005, 5) identify three methods of obtaining data from the primary sources, namely survey, direct measurement, and observation. Babbie (1990, 27–34) identifies more methods of obtaining data other than survey, namely controlled experiment, content analysis, analysis of existing data, case study, participant observation.

A pioneer in scientific research on compliance costs, Sandford, Godwin, and Hardwick (1989, 52) argue that any method in social research can be used in compliance cost studies: highly structured questionnaire/interview schedules; semi-structured or unstructured interviews; time and motion studies; participant observation; case study; archive research; and simulation/modelling exercises. Specifically, McKerchar (2010, 126) notes that there are three methods commonly used in research in tax, law and accounting, namely experiments, survey and interviews .

This research uses survey as the primary means of collecting the data. There are various definitions of survey (Scheuren 2004, 9; Leeuw, Hox, and Dillman 2008, 4–14; Lee, Benoit-Bryan, and Johnson 2011, 87; Fraenkel, Wallen, and Hyun 2010, 393), but in short "survey method" refers to the technique of collecting particular data from certain population using questions and targeting the sample instead of the population. The choice of survey as the main means of collecting the data in this current research is based on the advantages and the viability of this method. The main advantage of survey research is the ability to generalize about a population based on a small portion of that population. It also can be conducted in a relatively short time and is able to capture present conditions, and also easy to process because it produces standardized data (Rea and Parker 2005, 7). Further, it is logical, deterministic, general, parsimonious, and specific (Babbie 1990, 41–44).

The choice of a survey is also based on the fact that from the viability point of view, the use of other methods would not suit. For example, the main goal of this research is to quantify the compliance costs of a large group that consists of more than 28,000 taxpayers, which is not possible with direct measurement or observation. Likewise, the use of case studies would not cover as many respondents compared to the survey method, while the use of controlled experiments which investigate certain treatment to the research objective could not produce the quantification.

The selection of a survey as the tool for collecting data is also supported by the fact that this method is prominent in the field of compliance costs. From the beginning of scientific compliance costs studies, survey methods have been dominating. Among 33 compliance cost studies up til 1988 summarised by Sandfrod, Godwin, and Hardwick (1989, 224–230), only nine did not utilize a survey; instead, they used case studies (Martin 1994; Clinton and Arthur 1955; Johnston 1961), time studies (Matthews 1956; Yocum 1961), simulations (Barker 1972; Parker 1976), and document examinations (Sandford and Morrisey 1985; Pitt and Slemrod 1988).

In a summary covering a longer period than the above, Allers (1994, 242–250) identifies 63 compliance costs studies up til 1993, in which there are only 17 studies not using surveys. Among other methods used, and not mentioned in Sandford et al. (1989), are "guesstimate" (Hofstra 1943; Ott and Ott 1969), case studies (Edelman 1949; IFO 1953; Matthews 1957; Kust 1959; Johnston 1963), and simulation (Bosch et al. 1992).

The trend of using survey method has been continuing since the 1980s until now, with probably only a handful of research projects that did not use a survey as the data collecting tool. Among those, which are not covered by Sandford, Godwin, and Hardwick (1989) and Allers (1994) are estimation (Thompson 1984; General Accounting Office 1993; Plamondon and Zussman 1998), document analysis (Sandford, Godwin, and Hardwick 1981; Arthur Andersen & Co 1985), simulation (Erard and Vaillancourt 1992), case studies (Wallschutzky and Gibson 1993; Friedman and Waldfogel 1995; Evans, Tran-Nam, and Glover 2002a; Evans, Tran-Nam, and Jordan 2002; Moody, Warcholik, and Hodge 2005), update earlier data (National Audit Office 1994), direct measurement (Alexander, Bell, and Knowles 2004), and calculation (EU Project on Corporate Tax Compliance Costs 2009).

There are two basic survey designs, namely cross-sectional and longitudinal (Babbie 1990, 56-57; Fraenkel, Wallen, and Hyun 2010, 394) with the former more widely used (Babbie

1990, 51). The goals of the present research, among others, are to quantify the compliance costs and to investigate whether changes in the tax administration affect the amount of compliance costs. Ideally, two research studies would have been needed because one of the objectives of this research is to investigate whether there is a change in the compliance costs before and after a tax administration reform; hence it is longitudinal. However, budget constraints did not allow that; instead, only one study is conducted with some of the questions asking respondents to recall that effect, as suggested by Babbie (1990, 59).

Besides the survey as the primary mean of collecting the data as discussed above, this current research also uses in-depth interviews and a focus group discussion. This is in line with a suggestion by Sandford, Godwin, and Hardwick (1989, 54) that considering the low response rate in a mail survey (discussed later), it is common that it is later supplemented by a small number of interviews to obtain better results. This is also recommended by Pope (Pope 1995, 111) and by McKerchar (2010, 169) that this mixed method could be used as an exploratory strategy to gain more knowledge. Using a mixture of the two is also becoming increasingly popular (Leeuw 2008, 132). The in-depth interviews and the focus group discussions are undertaken to obtain a better understanding of the subjects.

However, it should be noted that this current research is not a research with "mixed methodology" in its strict sense where there is a combination of quantitative and qualitative methodology. Instead, this current research is a quantitative one, using the combination of two research methods, namely a survey and interviews as well as discussion; an important distinction pointed by McKerchar (2010, 118).

3.2.2 Mail Survey

There are a number of options in selecting what type of survey is the most suitable for particular research. They include mail-out, web-based, telephone, in-person interview, intercept, and on-board (Rea and Parker 2005, 8–23; Leeuw 2008, 133–4; Fraenkel, Wallen, and Hyun 2010, 396) with their respective advantages and disadvantages.

The current research chooses a mail survey based on the view that it is superior compared to other methods of survey. The advantages of a mail survey are that it is relatively low cost, geographically flexible, reaches a large sample at the same time, and provides ample time for respondents to reply (Greer and Lohtia 1994, 98; Diamantopoulos, Schlegelmilch, and Webb 1991, 31; Kanuk and Berenson 1975, 440; Dillman 1991; Greer, Chuchinprakarn,

and Seshadri 2000, 98; Fox, Robinson, and Boardley 1998, 128). In addition, although the exact figure is unknown, Dillman (2007, 7) argues that the use of self-administration mail survey exceeds that of interview survey.

The selection of a mail survey corresponds with the trend in compliance costs studies. As noted by Evans (2003b, 5), nearly two-thirds of the compliance studies from the 1980s to the 2000s use a postal survey either solely or in part This trend continues until now as noted by Susila and Pope (2012), that out of the 32 compliance costs studies conducted since 2000, there are 15 studies that use a mail survey as the method of data collection, followed by six using the interview method, and 11 using other methods (internet mail survey, expert calculation, and direct observation). In addition, all compliance costs studies in Asia so far (Ariff, Loh, and Talib 1995; Ariff, Ismail, and Loh 1997; Chan et al. 1999; Loh et al. 1997) utilise a mail survey method.

Even though the mail survey is superior to other methods, the drawback is that it has a low response rate (Kanuk and Berenson 1975, 440; Fox, Robinson, and Boardley 1998, 128; Greer and Lohtia 1994, 47; Diamantopoulos, Schlegelmilch, and Webb 1991, 327). Consequently, numerous studies have been undertaken to answer that challenge. For example, the summaries of this type of research on how to increase response rate have been provided by Scott (1961), Blumberg et.al (1974), Linsky (1975), Kanuk and Berenson (1975), Duncan (1979), and Harvey (1987). With various emphases, they examine extensive published research and draw conclusions on how several factors could lead to higher response rates, such as follow-ups, length of questionnaires, survey sponsorship, return envelope, accompanying letter, format, day and date, anonymity, and others.

Later studies also explore different inducements. They include factors affecting small businesses survey (Forsgren 1989), the use of a sponsoring organisation (Armstrong 1991), the length of the questionnaires and the respondent-friendliness design (Dillman, Sinclair, and Clark 1993), involvement of respondents (Kenhove, Wijnen, and Wulf 2002), the colour and size of envelopes (Beebe et al. 2007), personalisation and envelope colour (McCoy and Hargie 2007), styles of outgoing envelope (Maeda and Abe 2010), the experiment of the use of “actively agree”, “actively decline”, and “direct deliver” options (Stenhammar et al. 2011). Also, form of postage (Crohan and Lowe 1981), research on personalization (Byrom and Bennison 2000; Kahle and Sales 1978; Tullar et al. 2004), sponsoring organization (Asch and Christakis 1994), and the size of the outgoing envelopes (Halpern et al. 2002).

However, as noted by Jobber (1986, 183) those studies deal with the general population as the object of study as well as few studies trying to differentiate respondent groups. Considering that the target of this present research is large corporate taxpayers, the question would be how to increase the response rate when the respondents are corporations?

In order to answer this, it is imperative to consider several studies that have been conducted. Jobber (Jobber 1986) conducted a summary— and then an update more than ten years later (Jobber and O'Reilly 1998)—of research on the effects of several features covering preliminary notification techniques, concurrent, and follow-up. A similar summary is also provided by Greer et al. (2000) covering a period from 1961 to 1996. Both find that several factors increase response rates, namely the use of monetary and non-monetary incentives, follow-up letters, and postage stamps (Jobber 1986, 193; Greer, Chuchinprakarn, Seshadri 2000, 100). A later study by Jobber and O'Reilly (1998, 106) also supports this conclusion with new findings on telephone notification, express mail, university letter-heading, and telephone reminder. Pressley (1980) also proposes some suggestions on industrial surveys with "dos" and "don'ts" points regarding notification, outgoing and return envelopes, cover letter, and the questionnaires.

Later, Dillman (2007, 241-350) propose a number of principles when surveying business entities, namely to identify the most appropriate respondents; to plan the use of mixed-methods; to develop friendly questionnaires; to embed instructions in the questionnaire; to conduct on-site interviews; to target communications to gatekeepers; to consider follow-up communication for repeated surveys; to be cautious of giving incentives; and to consider different methods for certain subgroups.

In the field of compliance costs, similar suggestions are offered. Sandford (1995, 378–379) suggests 17 considerations to increase response rates. In short, they include choosing advisory committee; using careful wording; designing questionnaire layout properly; keeping the questionnaire short; obtaining relevant people or organisations; obtaining a suitable journal to back up the research; attaching relevant publications; personalising the letter; including a reply-paid envelope; promising confidentiality; using a pilot test; choosing the timing wisely; sending two reminders; scrutinising the responses; using telephone reminders if possible; and providing a prepaid help line.

Pope (1995, 110–111) also suggests a number of insights related to this technique. They include the use of a pilot survey and reminders; the use of no more than four-pages long of questionnaire; the opportunity for respondents to inform their identity; the use of a Likert scale to investigate attitude and opinion; and careful questions about the fees paid to tax agents.

3.2.3 In-depth Interviews and Focus Group Discussions

As discussed before, besides a mail survey as the main method of collecting the data, this current research also use in-depth interviews and focus group discussions to obtain a better understanding of the subject being researched. The in-depth interviews are conducted with willing respondents and tax consultants after the survey is undertaken while the focus group discussions are held before and after the survey.

Focus group discussion can be beneficial in the beginning of the survey to gather information or after the survey is finished to clarify the results (Rea and Parker 2005, 73). There are four elements to the focus group, namely the discussion is focused on a particular aspect; the discussion is within a group of participants; the object is discussed in depth; and the process is moderated (74). A focus group, called an "advisory committee", is also suggested by Sandford (1995, 379) in the beginning of the survey.

In the implementation, the discussions are held both at the beginning and at the end of survey process; even though it is more formal in the latter. In the beginning of this survey, the discussion is held separately with four tax officers from the Indonesian tax administration and one tax manager in a large corporation. In the later stage of the survey, a formal focus group discussion is held. Eleven participants come from a mailing-list group whose members are tax managers in large companies. The access to this mailing-list is obtained from personal connections. The discussion is held in the office of one of these companies and moderated by the author. With the participants' consent, the discussion is audio recorded for documentation. After the discussion every participant is given a complimentary travelling book to show appreciation for their willingness to participate in the discussion.

The goal of the focus group discussion is to gather in-depth information on the compliance costs and the effect of tax modernisation on them. A number of topics are discussed that

include, but are not limited to, the questions asked in the survey. The results of this discussion are presented later.

3.3 Survey Implementation

3.3.1 Pilot study

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

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

First, to keep the respondents informed, the description and definition of the terms, such as compliance costs, direct and indirect costs, and additional costs were located closer to the questions using those terms. Previously, they were located at the beginning of a set of questions. Second, the description of each term as mentioned above was shortened to reduce the space without losing their meaning. Third, the types of expenses related to compliance costs were simplified. Previously, there were separate questions on how much are the costs for stationery, travel expenses, and other expenses. In the final version, those three questions were grouped as one as 'other costs'.

3.3.2 Survey execution

There are a number of considerations in determining the encouragement used in this mail survey, namely the use of preliminary notification, monetary and non-monetary incentives, mailing techniques, covering letter, and the use of reminding letters.

This current survey does not use the preliminary notification, mainly because of cost considerations due to the fact that it would require numerous telephone calls and mails (the number of the intended sample is 3,000 companies). Furthermore, the research on

the effectiveness of using preliminary notification techniques does not produce conclusive results, as noted by Jobber and O'Reilly (1998, 97).

The current research does not offer monetary and non-monetary incentives mainly because of the same reason of a limited budget. Also, even if the funds were available, it is not possible to include a currency note in the envelope as the Indonesian postal regulations prohibiting such a practice. In addition, the recipients of the mail are the tax managers in large companies; such monetary incentives might be offensive to them. This is despite several surveys showing that providing monetary incentives does increase the response rate (Chawla, Balakrishnan, and Smith 1992, 307; London and Dommeyer 1990, 235; O' Keefe and Homer 1987, 349; Jobber, Birro, and Sanderson 1988, 164; Jobber, Saunders, and Mitchell 2004, 347). Meanwhile, research by Kalafatis and Tsogas (1994, 137) shows that the incentive does not affect the response rate.

Regarding the use of the envelopes, the first question would be whether to use business reply envelope or stamped reply envelopes, and second if the latter alternative is used, what type of stamp should be used. Clark and Kaminski (1990, 41) and Veiga (1984, 217) prove that using a stamp is more preferable to using business reply envelopes. Furthermore, one of the requirements for applying a business reply card is indeed having a business entity to submit it (Pos Indonesia 2012), whereas in this present research, there is no business entity involved. Although the same research shows that using first class stamp produces more response, the costs associated with it could be considered, as warned by Jobber and O'Reilly (1998, 100).

It is decided that the stamp used is that of the lowest rate (standard rate). There are four types of stamps in Indonesia, namely standard, registered standard, express, and express special with the rate of IDR1,500, IDR2,000, IDR2,500, and it varies depending on the distance. The use of the second type (registered standard) is not considered because in addition to its higher rate (some 33 per cent higher than the lowest rate), the registration of the addresses is not an important factor in this research. The use of the third and the fourth types would be much more expensive than the lowest rate.

The survey uses follow up letters, as suggested by Sandford, Godwin, and Hardwick (1989, 379), as well as the others (Jobber 1986, 193; Greer, Chuchinprakarn, and Seshadri 2000, 100; Jobber and O'Reilly 1998, 106). Because of the cost considerations, not all chosen

respondents are followed-up; only 500 of the original 3,000 intended respondents are sent the reminding letters.

Regarding the covering letter, this research uses Curtin University as the sponsor considering that the use of the university name improves the response rate (Faria and Dickinson 1992, 51; Faria and Dickinson 1996, 66; Greer and Lohtia 1994, 47; Chawla, Balakrishnan, and Smith 1992, 307). The letter head of the cover letter is coloured as the same yellow/black as the corporate colour of Curtin University.

The letter is addressed to the "Tax Manager" in the company based on three reasons. First, to make it personal which is defined by Worthen and Valcarce (198, 736) as "any technique intended to cause the individual respondents to feel that they are receiving individual, personal consideration and attention from the survey's sponsor". Second, to avoid accidental loss of the data/questionnaire in a large company with several departments, as one of the causes of nonresponse as warned by Lynn (2008, 37). Third, to target appropriate recipients as suggested by Dillman et al. (2007) with the TDM on business research. Further, personalising the address with the exact individual names of the tax managers could not be undertaken because the unavailability of the data.

The covering letter also guarantees the anonymity of the respondents by not asking their identity following the suggestion of Jobber and O'Reilly (1998, 96). In order to emphasise the importance of their response, the letter promises the conveying of the results of the research to the stakeholders, especially to the tax administration.

The covering letter is written both in English and Bahasa Indonesia. The inclusion of English in the covering letter is an attempt to convince respondents that the sponsor of the research indeed is an English speaking institution, that is, Curtin University, as well as the supervisor of the research who signs it is an English speaking person. The body of the questionnaire is written fully in Bahasa Indonesia as the official language in business in Indonesia. The inclusion of an English version of the body of the questionnaire is both expensive and unnecessary. The questionnaire is attached to this thesis as Appendix F (English version) and Appendix G (Bahasa Indonesia version).

3.3.3 Questionnaires

The concerns on the questionnaires used in this current research include the formation of the questions, the covering letter, the composition of the questions, the length of overall questionnaires, and the use of Likert scales.

The questionnaires in this present research adopt several suggestions on the mail survey in general and in the field of compliance costs. In general, the mail survey follows a number of recommendations by Dillman (2007, 51–78) who suggests a long list of 19 principles, Fowler and Cosenza (2008, 159) with five principles to design effective questions, namely to ask the right question; to ask questions that are understood; to ask questions to which the answers can be retrieved; to ask questions to which the answers can be provided; and to ask questions that respondents are willing to answer. Rea and Parker (2005, 52–72) address the phrasing of questions; the level of measurement; and the format of the questions. Babbie (1990, 127–135) deals with questions and statements; open- and closed-ended questions; making item clear; avoiding double-barrelled questions; ensuring respondents' competency; asking relevant questions; using short items; avoiding negative items; and avoiding 'biased' items and terms.

In the field of taxation, McKerchar (2010, 141–3) compiles fourteen recommendations of the wording of the questionnaires, such as the simplicity of the language, the shortening of the questions, and the relevance of the questions. In the field of compliance costs, Tran-Nam et.al (2000, 243–4) provide more specific details in the questionnaires to obtain high quality responses, particularly to avoid double counting, to prevent accounting and taxation overlap; and to ensure the consistency of the answers .

In particular, a number of complete questionnaire from different research studies in Australia that can be obtained during the research are also considered. They include the research on company income tax (Pope, Fayle, and Chen 1994), tax agents, personal taxpayers (Pope, Fayle, and Duncanson 1990), wholesale sales tax (Pope, Fayle, and Chen 1993b), and PAYG and employees related taxes (Pope, Fayle, and Chen 1993).

This study's questionnaire is divided into three parts, namely general information, quantification of compliance costs, and attitude toward tax administration. The first part about general information tries to obtain basic information about the respondents. It consists of seven questions covering the sector in which respondent is operating, the

location of the main business activities, the age of the business, the length of registration, the level of total assets, annual turnover, and total number of employees.

The second part, that comprises thirteen questions, deals with the compliance costs. It starts with a question on the number of full-time employees working on taxation affair in the company. This question is important to investigate the number of full-time staff in the company involved in the fulfilment of tax regulation which includes submitting CIT, VAT and withholding tax returns.

The next questions ask about the routine costs and their allocation to each type of taxes and the proportion for the purpose of tax computation and tax planning. Instead of asking about the annual costs, the questions ask respondents to provide the costs on a monthly basis, a period that is more commonly used in Indonesia, which are then translated into the annual costs in the analysis phase. Furthermore, because the concept of "planning" and "computational" costs is not familiar to Indonesian taxpayers, the words are substituted by the similar meaning words "direct" and "indirect", respectively. Also present is the question on time spent by the management to deal with taxes, as well as the valuation of time used.

The last questions in the second part enquire about the costs associated with additional activities, namely tax objection, audit, and appeal. These questions are aimed at obtaining information on non-routine costs as opposed to the routine costs mentioned above.

The third part of the questionnaire relates to the attitude towards tax administration and the effect of tax modernisation on compliance costs. In the attitude part, the questionnaire asks taxpayers to compare three aspects of the tax system in Indonesia, namely the tax office, the tax service, and tax management, before and after tax modernisation. Using a Likert system, they provide five answer options, namely "strongly agree", "agree", "neutral", "disagree" and "strongly disagree". There are five questions on the tax office and tax service with an additional seven questions on the aspect of the new organisational structure in the tax administration.

In the effect of tax modernisation on the compliance costs, respondents are faced with an open-ended question to specify whether the implementation of a new consultative and supervisory system in the new organisational structure in the tax administration, represented by the existence of Account Representatives (ARs), either increase or decrease the compliance costs, and to state any amount of this cost increase or reduction.

At the end of this third part, there are three questions on whether they use tax consultants to manage their taxes, and for what reasons they do so; the amount of their tax payable in 2010; and a comparison of whether their compliance costs are relatively smaller, the same, or higher, compared to similar companies.

At the end of the questionnaire, the respondents are asked whether they are willing to be contacted later for interviewing and provide a space for respondents to provide their name and contact number in case they choose to do so.

Regarding the length, the final questionnaire covers 8 pages, a number that is in the range of 5 to 9 pages that does not show different response rates in an experiment by Jobber (1989, 129). Had the number been less than 5 pages, it could have been not enough to cover all the enquiries, whereas had it been more than 9 pages, it could have been burdensome for respondents.

The body of the questionnaire does not have the Curtin University colour heading because printing the same colour letterhead in each page of the questionnaire is both unnecessary and expensive. Furthermore, white plain paper is used because surveys show that the colour of questionnaires does not affect the response rate (Greer and Lohtia 1994, 47).

This research uses five options on a Likert scale to investigate the attitude toward tax administration and the effect of tax modernisation on the compliance costs. The Likert scale is widely used in tax research internationally (e.g. Hasseldine, Kaplan, and Fuller 1994; Reckers, Sanders, and Roark 1994; Richardson 2005). The most common number of options in each question is four to seven (Wakita, Ueshima, and Noguchi 2012, 534). They also show that different studies produce different answers on what is the best number of options to produce the highest reliability. Examples in compliance costs surveys that utilise Likert scale are in Singapore with seven options (Ariff, Ismail, and Loh 2002, 245–246) and Sweden with different numbers of options from three to six depending on the questions (Malmer 1995, 233–236).

3.4 Sample, Population, Response Rate and Representativeness

3.4.1 Sample and Population

The population for this research is large corporate taxpayers, defined for the purpose of this research as all taxpayers that are registered in the LTOs and MTOs. The total number

of corporate taxpayers is 28,681, with any individual taxpayers who are registered in these LTOs and MTOs being excluded.

In anticipation of a low response rate, it is decided that a sample of 3,000 is used. In order to maximize the number of responses especially regarding statistical significance, the sample is taken from the database of taxpayers registered in LTOs and MTOs. This sample is selected using stratified random sampling with business sectors as the strata. Details are presented in Table 3.1.

Table 3.1: Population and Sample

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

Source: Directorate General of Taxes (2012)

3.4.2 Response rate

After the questionnaires are mailed, followed by two reminder letters, the usable response equals 246. The response rate of this survey is 8.2 per cent, which is low compared to similar research in Indonesia and in other countries. In the prior research in Indonesia, the response rate is 74 per cent (Prasetyo 2008), which is remarkably high even compared with that in developed countries, such as in the US (27.5%), Australia (17%, 42%), and Canada (24%). This current research also produces lower response compared to the research on public companies in Hong Kong (15%), Malaysia (16%) and Singapore (33% in 1994 and 26% in 1996).

The response rate of 8.2 per cent is also unfortunately in the low range of that of compliance costs research studies on overall type of taxes and type of taxpayers. For example, in the early compliance costs research in the UK undertaken by Sandford et. al, the response rate varies from the lowest of 24 per cent for follow up surveys on VAT and PAYE to 43 per cent for a large survey on PIT, CGT, and NICs (Godwin 1995, 75). Evans (2003) summarizes compliance costs research from 1983 to 2003 and finds that the

response rates range from 7 per cent in Canada (Arthur Anderson & Co 1985) to 50 per cent in Australia (Evans et al. 1996).

Even though the response rate is relatively low, the total number of response is 286, a number that arguably could be viewed as sufficient to lead to a number of deductions, because the sample could be grouped into different categories and each category still has a significant number of companies. For example, when comparing the costs among sectors, the number in the respective sectors has been enough to lead to conclusion on what sector has the largest compliance costs.[6] The profile of the respondents is discussed in Chapter 5.

3.4.3 Representativeness of the Sample

Before evaluating the representativeness of the sample, it is important to examine how the samples are drawn in other studies of large companies. The definition of large corporate taxpayers used in this research is all taxpayers who are registered in either the Large Taxpayers Office (LTO) or the Medium Taxpayers Office (MTO). The number of registered taxpayers in these offices in 2010 is 28,681. The determination of population using the list of taxpayers is similar to the method used in the US research where the sample are drawn from the companies registered under the Coordinated Examination program (CEP) of the Internal Revenue Service (IRS) with the population of 1,672 companies (Slemrod and Blumenthal 1996, 414). This is different from the study in Canada, where the sample is drawn from the companies who are the members of the Tax Executives Institute, Inc. (TEI), an association of tax professionals, with a population of 250 where "most of whom rank among the very largest Canadian corporations" (Erard 1997, 3). The population in the Australia 2013 survey consists of 1,850 "large" and "very large" companies under the administration of the ATO organization, namely the Client Relationship Management/CRM and the Key Clients Management/KCM (Evans, Lignier, and Tran-Nam 2013, 12). According to the ATO, large companies are the ones with an annual turnover of between AUD100 million and AUD250 million, while very large business are companies with more than AUD250 million annual turnover.

[6] In this research, five companies are assigned to be the signifier in each subgroup in the analysis. Any subgroup with less than five companies is not analysed further (deemed to be insufficient representation).

There are two questions regarding the representation of the sample, namely how representative is the sample to the population; and how representative is the population to the "real" large business in Indonesia? The first question on the sample will be discussed in Chapter 5, where it is shown that the correlation coefficient of two characteristics of the sample and population, namely the sector and the location, is 0.91 and 0.99 respectively; strongly supporting that the sample is indeed representative of the population.

The second question relates to whether the population of this research is indeed large business. In both studies in the US and Canada, in order to assess whether the samples are representative of large companies, the sample is compared with the list of the largest companies that is publicly available, namely with the 5,000 companies listed in the "Duns Business Rankings" and the 500 largest companies listed by "Fortune Magazine" in the US (Slemrod and Blumenthal 1996 p. 416) and with 500 largest companies listed by the Financial Post Magazine in Canada (Erard 1997, 4). Even though there is a list of the largest companies in Indonesia, for example, one recently published by "Fortune Magazine Indonesia" (2013), this list could not be compared to the sample used in this present research because the companies in the Fortune list are all public companies who are registered in one of three large taxpayers offices (LTO) in Indonesia which in turn are parts of the overall sample of this current research.

The characteristics of the population in this research are compared to the official data from the Indonesian Bureau of Statistics (BPS). This is because the true size of the companies in the population could not be compared with publicly available data as discussed in the previous paragraph. The definition of large business according to the BPS is a business that has turnover of more than IDR3 billion per annum. According to the BPS, the number of large business is around 45,600 (BPS does not provide an exact number) and distributed among a number of islands in Indonesia and different sectors in the economy. This is the most recent data because the data are obtained from the latest economic census conducted in 2006 and the next census will be undertaken in 2016 for the census is only conducted every ten years.

In order to investigate the similarity between DGT and BPS data, the distribution of large companies based on geographical location and economic sector is compared and the result is presented in Table 3.2.

Table 3.2: Composition of Large Companies by the Indonesian Statistical Board (2008) and the Directorate General of Taxes (2012) Categorisation

LOCATION	BPS, thousand	DGT, thousand	BPS, %	DGT, %
Java	31.1	21.6	68.4	75.3
Sumatera	7.1	4.2	15.6	14.8
Bali + Nusa Tenggara	2.0	1.0	4.4	3.6
Kalimantan	2.5	1.0	5.5	3.5
Sulawesi	2.2	0.8	4.8	2.8
Maluku Papua	0.6	-	1.3	0.0
Overall	*45.5*	*28.7*	*100.0*	*100.0*
SECTORS				
Retail And Wholesale Trade	18.9	11.1	41.45	38.81
Manufacture	8.7	6.5	19.08	22.82
Service	7.3	1.4	16.01	4.76
Transportation, Warehouse, Communication	2.4	1.5	5.26	5.13
Construction	1.9	1.5	4.17	5.18
Real Estate, Rent	1.7	1.9	3.73	6.77
Mining, Extraction	0.4	0.2	0.88	0.86
Others	4.3	4.5	9.43	15.68
Overall	*45.6*	*28.7*	*100.00*	*100.00*

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

From Table 3.2 it can be seen that in both sets of data the majority of large companies are located on Java Island, followed by Sumatera. The retail and wholesale trade sector is ranked first in terms of business sector in both sets of data, followed by the manufacturing sector. In order to test the proximity of data between BPS and DGT, a correlation coefficient is used. The correlation coefficients between these two sets of data are 99.97 per cent for the location and 91.8 per cent for the sector, meaning that they are very closely related. In other words, data from DGT used in this research are representative of that from BPS, albeit on a smaller scale, with around 29,000 companies compared to 46,000 companies, respectively.

Overall, because the responding companies in this research are representative of the population and the population itself is representative of large business in Indonesia, the results of this research are arguably justifiable to represent large business in Indonesia.

3.4.4 Non-response Bias

In order to address the issue of non-response bias, this research uses a method of “one question” tool. This is a tool where one question is asked to respondents who do not wish

to answer the full questionnaires; this method was first introduced by Allers (1994). This method is also used in other compliance costs studies by Evans et al. (1997), Rametse and Pope (2002), and Blumenthal and Kalambodikis (2006).

The question on the post card compares non-respondents' compliance costs with the compliance costs of similar companies who did respond. A total of 19 responses were received. A comparison of the answers to the one question on the post card and the same question in the full questionnaire is presented in Table 3.3.

Table 3.3: Comparison of Responses on Compliance Costs from the 'One Question Post Card' and Full Questionnaire

Comparison of Compliance Costs with Similar Companies	Number of responses of One question response	%	Number of Responses of Full Questionnaires	%
Significantly lower	0	0.00	1	0.47
Somewhat lower	1	5.26	45	21.13
Relatively the same	13	68.42	139	65.26
Somewhat higher	4	21.05	18	8.45
Significantly higher	1	5.26	10	4.69
Overall	*19*	100.00	*213*	100.00

Coefficient correlation of the percentage for each answer is used to investigate the closeness of those two sets of answers. The coefficient correlation between these two sets of answers is 0.93, meaning that the compliance costs of respondents and non-respondents are similar.

In order to estimate the non-response, wave analysis is conducted and the results are presented in Table 3.4. This method is suggested by Armstrong and Overton (1977) and Wallace and Mellor (1988), and used by Brau and Fawcett (2006) and Jabbar (2009).

Table 3.4: Wave Analysis of the Responses

Aspects	Initial sending	After the first reminder	After the final reminder	*Overall*
Number of usable response	191	37	18	*246*
Average compliance costs	413,951,663	439,269,778	457,326,516	*420,933,442*
Max	4,229,369,529	2,181,567,480	2,032,106,800	*4,229,369,529*
Min	24,000,000	59,600,000	124,200,000	*24,000,000*
Median	260,535,600	314,680,000	351,471,360	*283,931,880*
Std. dev.	589,483,405	453,159,727	431,216,436	*559,236,597*

Table 3.4 shows the number of responses and quantitative results of compliance costs in each stage of the research and overall results as well. It shows that the initial sending-out of the mail survey produces 191 responses with the compliance costs of IDR413 million in average, IDR4,229 million maximum, IDR24 million minimum, UDR260 million median and IDR589 million standard deviation. After the first reminder, the average compliance costs of 37 companies are IDR439 million, or a difference of 6.30 per cent from the initial sending. After the final reminder, from 18 additional responses, the average compliance costs are IDR457 million, or a difference of 10.6 per cent from the initial responses. The difference between the response after the first reminder (IDR439 million) and the final reminder (IDR457 million) with the overall results (IDR420 million) is 4.52 per cent and 8.80 per cent, respectively. Considering this small deviation, it suggests that there is no significant difference between the companies who respond and those who do not.

3.5 Measurements and Data Analysis

3.5.1 Measurement

There are a number of aspects regarding the measurement of the tax compliance costs, namely what constitutes the compliance costs, the components of the costs, the offset of the compliance costs and consequently the net compliance costs.

The simple definition of compliance costs are the costs incurred by the taxpayers in fulfilling their tax obligations. Although this definition is straightforward, there are a number of problems in measuring the compliance costs, as noted by a number of notable research studies (Sandford, Godwin, and Hardwick 1989, 14–16; Sandford 1995, 394–9; Allers 1994, 51–6; Pope 1993, 43-59; Pope, Fayle, and Chen 1991, 27–8, Evans et al. 1998,

232-234), namely the valuation of time used, the treatment of overhead costs, the benefits of the expenditures, and the measurement of psychological costs.

The valuation of time used by the personnel in the companies is problematic because one has to make a correct judgement at what amount of money is the time used converted; this is mainly related to personal taxpayers and small businesses. The treatment of overhead costs creates a problem because the allocation of overhead costs into tax and non-tax related activities have to be accurate and this could be subjective. The calculation of the benefits of the costs, either cash-flow benefits or tax deductibility benefits, requires detailed data that occasionally are difficult to obtain. The other benefits, namely managerial benefits, are difficult to measure as well, and so far there are only three studies that attempt to do this (Sandford, Godwin, and Hardwick 1981; National Audit Office 1994, Lignier 2009). Lastly, the psychological costs are widely recognized in the compliance costs literature but there is no attempt so far to measure this.

It is important to investigate how these problems have been addressed in the research for large companies in other countries. In research for public companies in Australia, Pope et al. (Pope and Fayle 1991, 8–9, 89) raise a number of problems, namely time spent by personnel in the companies, the allocation of the overhead costs, and managerial benefits as well as cash flow benefits. Regarding time spent by personnel, it is not calculated because it is already reflected in the payroll. About the allocation of the overhead, they recognise that it theoretically exists but very difficult to measure, thus, the estimation is left to the respondents. Managerial benefits are not measured because it is viewed as minimal. Cash flow benefits are calculated with a number of assumptions, among which is that tax is remitted on the due date for the income tax.

With different views, those issues are not raised in North American research. In research on large companies in the US, Slemrod and Blumenthal (1996, 418) maintain that the costs are social costs, not the private costs where tax deductibility for the compliance costs applies. They also do not differentiate between 'involuntary costs' as the consequences of fulfilling tax obligations and 'discretionary costs' as the costs chosen by the taxpayers because of their attempts to reduce tax liabilities. Similar to that in the US, in Canada, research by Erard (1997, 5–6) does not raise the problems at all. Instead, the research only calculates the cash expenditures because of the fulfilment, and divide the costs into more traditional components, namely by source (personnel and non-personnel), by function (bookkeeping, research and planning) and by the agents (internal and external).

In recent research in Australia, Evans et al. (2013, 10–11) do not consider the time spent by the personnel because all activities are undertaken by paid personnel and the payments are included in the salaries, the same reason as Pope et al. (1991) discussed above. Psychological costs are deemed as subjective and difficult to measure and it likely applies for individual taxpayers. The managerial benefits, although existing, are also believed to be difficult to measure as well as being insignificant for large companies. The cash flow benefits and tax deductibility benefits are not estimated because of the unavailability of micro data.

In studies of compliance costs of public companies in Asian countries, those problems are rarely raised. In Malaysia, the problem appears in the calculation of the internal costs, because their estimation requires subjective allocation of overhead and other costs (Loh et al. 1995, 29). The same case is also acknowledged in the research in Singapore 1996 (Ariff, Ismail, and Loh 1997, 1254). In Hong Kong (Chan et al. 1999, 46–47), and Singapore 1994 (Ariff, Loh, and Talib 1995), the problems are not discussed. All those research studies classify compliance costs into internal and external costs, as well as computational and planning costs.

The position taken in in this current research is as follows. The monetary value of time spent by personnel managing tax in the companies is calculated based on the respondents' estimation. The monetary value can be divided into two, namely the salary paid for staff that directly manages tax in the companies and the times used by various ranks in the company (i.e. accounting managers, other managers, finance director, CEO). The former is straightforward because the salary of these full time tax staff is indeed the compliance costs for those companies. The latter is more problematic because the fillers of the survey are asked to estimate the time spent by those managers and the estimated monetary value of those times. In order to check the reliability of this latter value, a check with external data is needed.

The checking with external data is undertaken to verify if the reliability of the estimation of the monetary value of time spent by various personnel that are not fully assigned to manage the taxes and the results show that the respondents' estimation is accepted, as presented in Table 3.5.

Table 3.5: Monetary Value Calculation of Time Spent by the Management

Position	Average time spent per month as reported by the respondents (hour)	Percentage of total time per month, %*	Median salary per month (IDR mill)**	Monetary Value per Month (IDR mill)	Monetary value per year (IDR mill)
Chief Executive	1.58	0.99	97.67	0.97	11.60
Chief Finance Officer	8.37	5.23	83.83	4.38	52.61
Accounting Manager	23.73	14.83	14.58	2.16	25.95
Other Managers	10.73	6.71	17.16	1.15	13.82
Overall					103.99

Note: *It is assumed that total working hour per month is 8 hours a day based on 20 working days in a month, or a total of 160 hours per month. **median salary is based on the survey conducted by PayScale Human Capital (2013). The median salary for 'other managers' is the average of median salary for the positions of human resources, office, operation, account, and marketing manager.

Table 3.5 shows the average time spent by those personnel, the percentage of time used to manage taxes in one month, the median salary of each position based on an external survey and the translation of this value in a year. From the calculation in Table 3.5, it can be seen that the value of time per year amount to just below IDR104 million. This figure is significantly higher than the amount reported by the respondents, which is IDR71 million as shown later in Table 5.25. However, both figures are not readily comparable because they refer to different years; namely 2013 for Table 3.5 and 2010 for Table 5.25. In order to better compare those two sets of data, they should be adjusted for inflation. The inflation rate for 2011 and 2012 according to the Indonesian Statistical Bureau is 3.79 and 4.30 per cent per annum, respectively (Biro Pusat Statistik 2013). The monetary value of time spent by the management after the inflation adjustment is IDR96.07 million; which is 35.3 per cent higher than what is reported by the respondents. The difference of 35 per cent is deemed acceptable.

Regarding the second concern, which is the allocation of overhead costs into costs that are related to taxes, it is acknowledged here that the allocation is difficult to undertake, and the figures are taken from the respondents' estimation. This is the same view as the research in Australia for public companies (Pope, Fayle, and Chen 1991, 8–9, 89) and later on large companies (Evans, Lignier, and Tran-Nam 2013, 10–11).

Regarding the benefits, this current research takes a different position for each. For managerial benefit, again this present research agrees with both approaches in Australia (Pope, Fayle, and Chen 1991, 8–9, 89; Evans, Lignier, and Tran-Nam 2013, 10–11) that the benefit is minimal because even without tax regulations, the management of large

companies are fairly sophisticated in terms of bookkeeping, internal reporting, and documentation. These benefits are also difficult to measure. Regarding cash flow benefits, this current research is able to calculate adequately because the micro data needed, namely tax revenue and the due date for each type of tax, could be obtained during the research, unlike in the large companies survey in Australia (Evans, Lignier, and Tran-Nam 2013). Regarding tax deductibility benefits, which are not calculated in the research on public companies in Australia (Pope, Fayle, and Chen 1991), this current research calculates the benefits using a simple method, with the same assumption as in the Netherlands (Allers 1994), India (Chattopadhyay and Das-Gupta 2002), and Croatia (Blažić 2004).

Regarding the last concern about the compliance costs, which are the psychological costs, this research agrees with other research that the benefits exists but are difficult to measure. In addition, it is believed that any psychological effects of tax regulations towards the owner of the companies, such as the risk of tax audit or additional tax determination by the tax administration, could be minimized by hiring other parties (e.g. tax consultants or additional tax staff) to deal with these uncertainties.

Having addressed those entire potential problems, this research is able to calculate the net compliance costs as the gross compliance costs minus cash flow benefits minus tax deductibility benefits.

3.5.2 Data Analysis

Data in this research are analysed with the IBM SPSS Statistics 18, the latest version available at the time of writing. The primary analysis relates to the mean compliance costs overall, based on the sector and the length of operation. Further, the costs of each sector and length of operation are analysed based on the size groups as measured by annual turnover.

The use of annual turnover as the indicator of the size of companies is common in the compliance costs studies. For example the prominent works in the UK (Sandford, Godwin, and Hardwick 1989), in the Netherlands (Allers 1994), New Zealand (Sandford and Hasseldine 1992), and Australia (Pope, Fayle, and Chen 1991; Evans, Ritchie, and Tran-Nam 1996) all use annual turnover as one of indicators. For large companies in Australia besides turnover, Pope, Fayle, and Chen (1991, 56–57) also use number of employees. While in the

US, Slemrod and Blumenthal (1996, 426) use the number of employees, the annual turnover and the amount of total assets. In Australia and Canada, besides the annual turnover, the number of companies in the group is also used as an indicator (Erard 1997, 6; Evans, Lignier, and Tran-Nam 2013, 39). All research in Asian countries uses annual turnover as the indicator (Chan et al. 1999, 53; Ariff, Ismail, and Loh 1997, 1258; Ariff, Loh, and Talib 1995, 212; Loh et al. 1997, 32).

The comparison of compliance costs by sector has to be carefully executed because one has to consider the difference in the size of the sectors as suggested by Slemrod and Blumenthal (1996, 423). This current research agrees with this, and in undertaking the comparison between sectors, the size of the companies are grouped at the same categories of turnover. Compliance costs by sector is investigated in the US (Slemrod and Blumenthal 1996, 421–25), Canada (Erard 1997, 6–7), Hong Kong (Chan et al. 1999, 62–64), but not in Australia for public companies (Pope, Fayle, and Chen 1991) and large companies (Evans, Lignier, and Tran-Nam 2013), Singapore 1994 (Ariff, Loh, and Talib 1995) and 1996 (Ariff, Ismail, and Loh 1997), and Malaysia (Loh et al. 1997).

This current research also investigates whether the length of operation affects the overall compliance costs. Similar to the case with sectors, the comparison among companies with different lengths of operation also considers companies with the same category of turnover. This is not investigated in the study in the US (Slemrod and Blumenthal 1996), Australia for public companies (Pope, Fayle, and Chen 1991) and for large businesses (Evans, Lignier, and Tran-Nam 2013), Canada (Erard 1997), Singapore 1994 (Ariff, Loh, and Talib 1995) and 1996 (Ariff, Ismail, and Loh 1997), Malaysia (Loh et al. 1997), and Hong Kong (Chan et al. 1999).

The compliance costs for each sector and the length of operation is analysed further based on their annual turnover. In order to do this, the size of the companies is grouped into five different bands of turnover, and from each band the compliance costs based on sector and length of operation are analysed. The analysis is undertaken if the representation of the sample in each group based on turnover and sector or length of operation has at least five companies; a representation below five companies is considered not sufficient to draw any meaningful conclusions.

After the analysis based on the sectors and the length of operation, the disaggregation of the compliance costs into their components is undertaken. The components of the costs

are analysed based on the sectors, the length of operation and turnover, to investigate whether the components behave differently under those different pertinent factors. Likewise, the same analysis is also conducted in the disaggregation based on internal and external costs as well as computational and planning costs. The regressivity and the significance of the compliance costs is analysed based on the size (which is measured by the number of employees, the level of annual turnover and total assets), and the tax payment (CIT, VAT, and WHT). Lastly, an analysis is also undertaken to investigate if there is a difference between companies from different sectors on the allocation of the costs, based on the type of tax. The same analysis is also applied to the investigation of why the companies hire tax consultants and on the costs of tax audits, objections, and appeals.

The national compliance costs in this research are calculated by multiplying the average compliance costs in each sector in the sample with the number of companies in the respective sectors in the population. This is admittedly a simpler approach compared to the other research studies. For example, Pope, Fayle, and Chen (1991, 76–77) calculate total compliance costs for public companies by extrapolating the compliance costs per company in each band of turnover or tax revenue with the number of companies in each band of turnover or tax revenue based on the ATO data. In Australia for overall business taxpayers, the population's compliance costs are calculated by multiplying the compliance costs of each band of turnover with the number of companies in its respective turnover band in the population (Tran-Nam et al. 2000, 248). However, the calculation in this current research is slightly more detailed than the gross computation costs for the population undertaken in the US (Slemrod and Blumenthal 1996, 418), where the population's compliance costs are calculated by multiplying the average compliance costs per company with the number of companies in the population, without considering the distribution of companies in the population based on the size (e.g. in Australia) or sector (e.g. in this current research). The method of calculation national (population) compliance costs by considering the size of taxpayers (e.g. Pope, Fayle, and Chen et al 1991, Tran-Nam et al. 2000) is a better approach because it is clearly demonstrated in numerous compliance costs research studies that the compliance costs are positively correlated with the size of the company. Unfortunately, data on the distribution of large companies in Indonesia based on the size are not available; hence, the use of a simple method in this current research.

After the gross compliance costs have been calculated, the net compliance costs are calculated by deducting the cash flow benefits and tax deductibility benefits (both are discussed above) from the gross compliance costs. From this, the compliance costs as a percentage of tax revenue and GDP are calculated accordingly.

3.6 Chapter Summary

This chapter provides a discussion on how this research is designed and how the plan is implemented. The research is based on the positivism paradigm with quantitative research as the chosen methodology. The method of collecting data used in this research is a mail survey, with additional discussions and interviews conducted to gain more knowledge. The use of a mail survey is based on the advantages and viability of this method compared with the other methods. The technicalities of the mail survey, such as covering letter, the method of delivery, the content and the length of questionnaire as well as the method to increase the response rate, are adapted from best practices in the social science as well as cost considerations.

The response rate in this research is admittedly low. However, the analysis on the representativeness of the sample shows that participating respondents are relatively representative of the population. In addition, they also represent non-response companies when analysed with the "one-question" method and wave analysis.

There are a number of concerns in the measurement of the compliance costs and their components in this field, and this research adopts the following approach. The value of time of staff and other personnel involving in tax management in the company is based on the respondents' estimations; a check of the accuracy of this estimation, based on an external data, shows that the estimation is acceptable. The psychological costs are not measured due to the difficulty and common practice in this area, as well as the view that any psychological costs borne by the owners are eliminated by hiring personnel to alleviate the pressure. The managerial benefits are not calculated either, because of the common practice, as well as the view that large companies do not benefit significantly from the requirements from the tax authority. In order to derive the net compliance costs, cash flow benefits and tax deductibility benefits are deducted from the gross compliance costs. In analysing the compliance costs based on the sector and the length of operation, the size of the companies is fully considered. The use of annual turnover as the base to determine the size of the company and the use of a sectoral base in calculating national compliance costs are based on common practice and the availability of the data.

Chapter 4. Indonesian Taxation and the Drivers of the Compliance Costs

4.1 Introduction

This chapter discusses the Indonesian tax system, the drivers of the compliance costs, and the latest administration reform. The goals of this chapter are to provide a comprehensive picture on the current state of the Indonesian tax system with the emphasis on what type of taxes are levied in Indonesia and their role in government revenue, the rights and the obligations of the taxpayers that become the source of the compliance costs, and the Indonesian tax administration and its reform in the last decade.

The structure of this chapter is as follows. Section 4.2 discusses the tax administration in Indonesia along with the role of taxation in the state budget, including the development of the number of taxpayers and tax revenue. Section 4.3 discusses the activities undertaken, either routine or non-routine, by the taxpayers to fulfil their tax obligation as well as to execute their rights. It is then followed by Section 4.4 that provides a discussion on the tax administration reform, including the reasons, the goals, the features and the development so far. A summary in Section 4.5 concludes this chapter.

4.2 Indonesian Tax System

Indonesia is a country in Southeast Asia with the population of 245 million (Biro Pusat Statistik 2010), making it the fourth most populous country in the world. The Gross Domestic Product (GDP) of Indonesia in 2009 is approximately US$540.273 billion (Bank Indonesia 2011; World Bank 2011), and ranked 14th for the biggest economy in the world (CIA 2011). The GDP per capita is currently US$2,050, categorized as a “lower middle income” country by the World Bank (2011).

Administratively, Indonesia is a unitary state, comprising one central government, 33 provinces, and 497 regencies and municipalities (Biro Pusat Statistik 2010). In order to finance central government expenditure, Indonesia mainly depends on tax revenue. Tax revenue and national revenue figures from 2001 to 2010 are presented in Table 4.1.

Table 4.1: Tax Revenue in Indonesia 2001-2010, IDR trillion

Year	Income Tax	VAT/Sales on Luxury Goods	Land & Building Tax/ Acquisition Duty of Right on Land & Building	Other Tax & Revenue from Interest	Total Tax Revenue	National Revenue	Tax Revenue as Percentage of National Revenue
2001	94.46	55.86	6.66	1.59	158.57	300.60	52.75
2002	101.50	65.24	7.99	1.47	176.20	298.53	59.06
2003	114.83	76.76	10.91	1.65	204.15	340.93	60.03
2004	134.90	87.56	14.67	1.83	238.96	403.10	59.20
2005	175.37	101.30	19.61	2.05	298.33	493.92	60.44
2006	208.83	123.03	23.90	2.29	358.05	636.15	56.31
2007	238.75	155.19	29.55	2.74	426.23	706.11	60.24
2008	327.50	209.64	30.93	3.03	571.10	979.31	58.32
2009	317.61	193.07	30.73	3.11	544.52	847.09	64.28
2010	356.73	230.58	36.61	3.97	627.89	990.50	63.39

Source: Directorate General of Taxes (2011, 100–101). Note: The amounts in this table are in nominal values. The average rate of inflation in 2001 to 2010 in Indonesia is 8.51% per annum. The annual increase of tax revenue during that period is 16.95% in average. Hence, the annual net increase in tax revenue after the inflation adjustment is 8.44% in average (i.e. 16.95% minus 8.51%). Source: Biro Pusat Statistik, 2014.

It can be seen from Table 4.1 that tax revenue in Indonesia from 2001 to 2010 has increased steadily, with the only exception being 2008–2009, from IDR158 trillion in 2001 to IDR627 trillion in 2010, or almost four times. It has been dominated by the income tax with contribution of IDR94 trillion of IDR159 trillion in 2001 (just under 60%) to IDR357 trillion out of IDR628 trillion in 2010 (57%), followed by VAT and sales taxes on luxury goods of 35 per cent in 2001 and 37 per cent in 2010, land and building tax and the acquisition duty of right on land and building of 4 per cent in 2001 and 6 per cent in 2010. Table 4.1 also shows that tax revenue contributes more than half of national revenue, while the figure fluctuates between 53 per cent and 64 per cent. In the period from 2001 to 2010, the contribution has increased more than ten percentage point, from 52.75 per cent to 63.39 per cent.

The tax ratio, which is the comparison between tax revenue (central and local government) and the Gross Domestic Product (GDP), in Indonesia during 2001–2010, ranges from 11.70 per cent to 14.08 per cent (Directorate General of Taxes 2011, 101). As a “lower middle income” country categorised by the World Bank, Indonesia has lower tax ratio compared with other groups of countries studied by the International Monetary Fund, whose tax ratio is 35.4 per cent in 30 OECD member countries; 15.7 per cent in 18 non-OECD, high income countries; 20.7 per cent in 41 upper middle income countries; 17.7 per cent in 48

lower middle income countries; and even 13.0 per cent in 37 low income countries (International Monetary Fund 2011, 54–55).

Taxation in Indonesia is managed by the Directorate General of Taxes under the Ministry of Finance. According to the Regulation of the Minister of Finance (2010), the main task of the DGT is to "formulate and implement technical policies and standardization in the area of taxation". Included in this task are preparing policy formulation for the Ministry of Finance in the taxation area; implementing tax policies; preparing standards, guidelines, manuals, criteria and procedures in the taxation area; providing technical guidance and evaluation in the taxation area; and performing tax administration.

The organisation of DGT consists of a head office unit and operational office units. The head office unit consists of the Secretariat of the Directorate General, several directorates, and a number of senior advisor positions. The operational office unit consists of Regional Tax Offices; Tax Offices; Tax Service, Counselling and Consultation Offices; and the Data Processing Centre (Directorate General of Taxes 2011, 16).

The regional tax offices perform the tasks of coordinating, controlling, analysing and evaluating the tax office operations, and elucidation of policies from the head office. There are two types of regional office based on location; the first consists of the Large Taxpayer Regional Tax Office (LTRO) and the Jakarta Special Regional Tax Office that both are located in Jakarta and the other type which are other regional offices are located in the cities outside Jakarta.

The tax offices perform the functions of delivering services, counselling, and supervision to taxpayers. The tax offices are segmented based on the size of the taxpayers they handle. They are Large Taxpayer Offices (LTO) which administer national large corporate taxpayers, state-owned enterprises, and high wealth individuals; Medium Taxpayer Offices (MTO) which administer regional large corporate taxpayers, foreign investment companies, permanent establishment and expatriates, and public listed companies; and Small Taxpayer Offices (STO) which manage local individual and corporate taxpayers. Currently there are 31 Regional Tax Offices, four LTOs, 28 MTOs, and 299 STOs (Directorate General of Taxes 2011, 20). The organisational structure in each tax office is based on the function. There is a Service Section, Audit Section, Supervisory and Guidance Section, Collection Section, and Information and Technology Section.

The number of registered taxpayers in Indonesia increases steadily, and details are presented in Table 4.2. From the table it can be seen that the number of individual taxpayers increases significantly from 3.2 million in 2006 to 16.8 million in 2010. Corporate taxpayer numbers also increase but at a slower rate, from 1.2 million in 2006 to 1.8 million in 2010.

Table 4.2: Number of Taxpayers in Indonesia, 2006-2010

Type of taxpayer	2006	2007	2008	2009	2010
Individual	3,251,753	5,431,689	8,807,666	13,861,253	16,880,649
Corporate	1,226,279	1,344,552	1,481,924	1,608,337	1,760,108
Total	4,480,038	6,778,248	10,291,598	15,471,599	18,642,767

Source: Directorate General of Taxes (2011, 98). Note: Total taxpayer number above does not include the government treasurers who have tax identification numbers but are not the subject of the income tax because their main duty is to withhold taxes on government expenditure.

4.3 Tariff and Calculation

There are three main taxes in Indonesia, namely income tax, Value-Added tax (VAT), and a number of withholding taxes (WHT). The current tax rate for income tax is 25 per cent for companies and ranges from five per cent to 30 per cent for individuals depending on their income level (Income Tax Act Article 17, Republic of Indonesia 2009a). The rate for Value-Added Tax is ten per cent (VAT Act Article 7, Republic of Indonesia 2009b). The rate for withholding tax varies depending on the type of income as stipulated in different articles in the Income Tax Law. Currently there are four types of tax that are withheld by the payer, namely Income Tax Article 21 on salaries; Income Tax Article 22 on importation, tax on government procurement, tax for companies operating in certain industries, tax on luxury goods; Income Tax Article 23 on domestic service fees; and Income Tax Article 26 on international service fees.

The income tax return has to be submitted at the end of the tax year. The current annual income tax return consists of a form of eight pages with the first two pages serving as the main form containing the calculation of taxable income and income tax payable, and the next six pages are allocated for the attachments. The first attachment contains the calculation of the taxable income which is derived from the financial income added to with positive adjustments that add to the taxable income (ten items) and subtracted from by negative adjustment that reduce the taxable income (four items). The second attachment details the calculation of the cost of goods being sold, the operating costs, and other costs. The third attachment lists the taxes that have been paid during the year that are credited

against the current tax payable. The fourth attachment details the income that is levied by the final tax (tax is paid but is not credited against current tax payable) and non-taxable income. The fifth attachment details the identity of the shareholders and the executives. The last attachment contains a list of subsidiaries and the funds borrowed from and loaned to related companies.

The VAT returns have to be submitted once a month. This monthly tax return for VAT consists of three parts. The first page contains the calculation of sales and VAT output, VAT input, and the VAT payable (or refund claim if the VAT input is larger than the VAT output). The second part details the VAT output as a result of the sales and the detail of the name and the tax identification of the buyer, the tax invoice number, the base of VAT and the amount of VAT. The last part covers the VAT input as a result of the purchase of VAT-creditable goods, as well as the name and the tax identification of the seller, the tax invoice number, the base of VAT and the amount of VAT.

The tax returns of withholding taxes must be submitted monthly as well. The returns are generally simple, consisting of two pages, except for the tax return for the tax on salaries which consists of two main pages and several attachments. For most withholding tax, the first page of the tax return contains of the amount of tax being withheld in that period for each type of tax. The second page contains of the details of the recipient covering the names, the tax identification number, the amount of payment, and the amount of tax withheld. Meanwhile, the tax return for salary consists of the main pages containing the recipient of each payment and the tax withheld and the attachments detailing the list of the employees (name, tax identification number, amount of salary, amount of tax withheld) and employee turnover (list of new employees and recently quitting employees).

4.4 Taxpayer Rights and Obligations and the Drivers of the Associated Compliance Costs

4.4.1 Taxpayers' Rights and Obligations

Indonesia has implemented a self-assessment system since 1983 (Gillis 1985, 94) in which taxpayers are required to register, calculate, remit the tax and report their obligation on a regular basis, either monthly or annually. Besides reporting their own taxes, taxpayers are also subject to withholding taxes in which taxpayers withhold tax payable on certain payments to other taxpayers and then remit said tax to the government.

The obligations of a taxpayer are stipulated in the Taxation General Provision Act (the latest is Act Number 28, 2008). The Law consists of eleven chapters, namely general provisions; tax identification number, tax return, and tax payment; tax determination; tax billing; objection and appeal; bookkeeping and auditing; special provision; crime statute; crime prosecution; transitional provision; and closing chapter. Almost all of the regulations mentioned are concerned with the obligations and rights of the taxpayers; the others are related to the tax administration such as tax billing, crime statute, and crime prosecution.

The taxpayers obligations regulated in the Act could be grouped into three activities, namely registration, calculation, and reporting of the tax. A company which has fulfilled all the requirements has to register to obtain a tax identification number and VAT business status (Article 2 [1] and 2 [2]). Once the number is secured, a company begins to act as a taxpayer and is bound to all the rights and obligations. The obligation for taxpayers is submitting tax returns every specified period of time depending on the type of tax (Article 3 [1]). Before submitting the returns, the taxpayers have to calculate the tax that has to be paid at the end of the tax period, by calculating the difference between the amount payable with the amount paid in advance.

The taxpayers' rights are regulated under the term of an "objection and appeal" section. It is stipulated that every taxpayer has the right to propose a tax objection if they do not agree with the tax adjustments as the results of a tax audit (Article 25) and a tax appeal if they do not agree with the results of a tax objection (Article 27). Also regulated is the right to use a proxy to represent a taxpayer in every aspect of taxation (Article 32 [3]).

In order to fulfil all the obligations and to execute all the rights, taxpayers have to spend a certain amount of money on their tax staff's salaries, expenditures for utilities and stationery, and fees for tax consultants.

4.4.2 Costs Related to Registration

The obligation to register as a taxpayer begins when a company has fulfilled the requirements to become corporate taxpayers as stipulated by the tax law. The requirements for corporate taxpayers include the certificate of the establishment and its amendments, and the identity card of its proprietors. The process takes place in one business day (Regulation of the Directorate General of Taxes PER-160/PJ./2007). In order to register as a VAT taxable business, the minimum amount of turnover is IDR600 million per year (Regulation of the Ministry of Finance 68/PMK.03/2010).

The associated costs related to this registration may include the costs of preparing and copying the necessary documents and costs of delivering the documents. There is no cost to be paid to the government because the process is free of charge.

4.4.3 Costs Related To Tax Calculation

Calculation of Income Tax

The obligation related to CIT starts at the beginning of the tax year when the company starts their business period. The law stipulates that every taxpayer is required to maintain records, books, and the supporting documents for ten years (Article 28 [11] Taxation General Provision Act). After the tax year is finished, the companies have to prepare financial statement as the basis to calculate income tax payable. In order to arrive to the taxable income, the taxpayers have to prepare a number of adjustments that reflect the difference between accounting income and tax income. Those differences could be divided into two, namely time difference which refers to the difference in the recognition time of certain income and expenses; and permanent difference that refers to the inclusion or exclusion of certain accounting income into the tax income. The example of time difference is the depreciation expense in which the method used in a particular company might be different from what is allowed by the Income Tax Act (Article 11).

The adjustments regarding permanent differences could be caused by any accounting income that is not subject to income tax; or any expenses that are not deductible from gross income. Currently there are fourteen types of income that are not the subject to the current income tax laws (Article 4 [3a] to [3n]). Theses exceptions include dividend income from subsidiary companies with a minimum 25 per cent ownership (Article 4 [3f.2]; the income from investments from certain Pension Funds as regulated by the Ministry of Finance (Article 4 [3h]; and the income of education or research and development bodies as regulated by the Ministry of Finance (Article 4 [3m]).

Regarding the expenses, the income tax law stipulates that there are eleven expenses that are not allowed to reduce the taxable income. They include bad debt allowances for companies that are not operating in the financial sector (Article 9 [1c]; fringe benefits (Article 9 [1e]; excessive amounts of expenses paid for related parties (Article 9 [1f]; and contribution to social organisations (Article 9 [1g]).

Other than the adjustments made to calculate the taxable income, a taxpayer has to separate the income based on the income tax rate because currently there are rates, namely a general rate which is 25 per cent of taxable income; and a "final" tax rate which is different for each type of income (Article 4 [2]). The general 25 per cent rate applies for all income other than income under the final tax rate. Included in the income attracting the final rate is the interest income from saving and time deposits (Article 4[(2a]); the income from lottery (Article 4 [2b]); the income from the stock exchange (Article 4 [2c]); and the income from selling land or buildings and the income of construction and real estate companies (Article 4 [2d]).

After the taxable income has been calculated, the actual income tax due has to be calculated by subtracting any income tax that has been prepaid during the year from the income tax payable. The result of this calculation could be positive, in which there is an amount payable to the government; or negative, in which the government actually owes some money to the taxpayer.

Calculation of VAT

The taxpayer has to correctly calculate output and input tax to avoid any tax risk. In order to do this, a taxpayer should understand what transactions are taxable under VAT rules, and what VAT on inputs can be credited against VAT on outputs. Currently there are four groups of goods and services that are VAT-exempt; the Indonesian VAT Act groups these exemptions into different terms, as can be seen in Table 4.3.

Besides taxable goods, there are also luxury goods that are taxable under sales tax on luxury goods law which is in the same law as VAT. This tax is only levied on importation and the manufacturing stage. Beyond this stage the luxury good sales tax is not applied. There are four reasons for this tax, namely to balance tax burden between high and low income consumers; to control the consumption of luxurious goods; to protect small and traditional producers; and to secure tax revenue. The criteria for luxury goods are goods that are goods that are not necessities; are only consumed by certain people; are generally consumed by high income people; and are consumed to show the status of the consumers (Explanations on VAT Law Article 5). Subsequent regulations classify what is included in the category of luxury goods and distinguishes between motor vehicles and non-motor vehicles. Included in the non-motor vehicles category are electric household, sporting and photography equipment, apartments, ships and boats, certain beverages, carpets, and guns.

Table 4.3: VAT Exemptions under VAT Law in Indonesia

No.	Terms of Exemptions	Definition	Groups of goods/services	Number of kinds of goods/services
1	Non-taxable goods	Any delivery of these goods is not VAT payable	Goods obtained from mining or boring activities	48 goods
			Basic commodities	11 goods (limited to certain stages of production; beyond theses stages, they are VAT payable)
			Foods and beverages served in hotels, restaurants, and such	Any foods/beverages
			Money, gold bars, and securities	
2	Non-taxable services	Any delivery of these services is not VAT payable	17 groups of services (such as medical, social, finance, and insurance)	40 kinds of services
3	Taxable goods but VAT is exempted	Input tax to deliver these goods cannot be credited	Capital goods—machines and equipment	
			Cattle foods, fish, aviary	
			Agriculture products	
			Agriculture seeds	
			Clean water provided by water companies	
			Electricity below 6,600W	
			Modest apartments	
4	Taxable goods but VAT is not levied	Input tax to deliver these goods can be credited	Goods and services delivered in special regions	
	TOTAL		29s group of goods and services	At least 99 kinds of goods and services

Note: The difference between :exempted" and "not levied" according to the Indonesian VAT Act is that in the former, the input tax that is already paid cannot be credited or claimed back, while in the latter it is otherwise. Source: compiled from related rules (Article 4A (2), Article 4A (3), Article 16B VAT Act, Regulation of the Government No. 7/2007).

The obligations for a taxpayer regarding VAT can be divided into several steps. First, a taxpayer has to determine if the goods or services delivered are VAT exempted; if they are not exempted than the VAT levied is 10 per cent of the sales amount. Second, the taxpayer has to determine if the goods are classified as luxurious goods in which case the tax on luxurious goods has to be paid; the type of goods included in each kind of rate is adjusted regularly. The current rate for sales tax on luxury goods varies between 10 per cent and 75 per cent. The lowest 10 per cent rate applies to televisions, air conditioners, photographic equipment, and sporting equipment. The highest tariff of 75 per cent applies to certain kinds of motor vehicles. Third, the taxpayer has to include all rightful input tax that will be credited to VAT output. There are ten types of goods and services where VAT input cannot be credited under VAT Law (Article 9). Finally, the taxpayer has to calculate the difference between VAT output and VAT input. If the VAT output is larger than VAT input, the

difference has to be paid to the government; if otherwise, the taxpayer can claim a tax refund.

Under the VAT Law, a taxpayer has to produce a tax invoice for each transaction (Article 13 [1]). The exception for this is that for a same buyer, a taxpayer can produce only one tax invoice named 'combined tax invoice' for the whole transaction during a one month period, instead of one tax invoice per transaction (Article 13 [2]).

Calculation of Withholding Taxes

The obligations regarding withholding taxes occur when a taxpayer pays certain expenses that fall under the category of tax-withheld income for the recipients. The paying taxpayer has to determine if the payment is under such a type and then to withhold the tax based on the correct rate of tax. In 2010 there are three types of withholding taxes, namely tax on salaries (Article 21); tax on importation, tax on government procurement, tax for companies operating in certain industries, tax on luxury goods (Article 22); and tax on service fees (Article 23 and 26).

As the name suggests, tax on salaries (Article 21) is levied when a taxpayer pays salaries and similar payments to its employees. Based on the Regulation of the Minister of Finance (Number 252/PMK.03/2008) there are four types of recipients for whom the taxpayer has to withhold the tax on salaries and similar income, namely employees; pensioners; non-employees who receive certain income such as experts in certain areas, actors, and field agents; and participants in certain types of activities such as competitions, conferences, and education. Every taxpayer has to follow the method to calculate each type of tax which is published by the Indonesian tax administration every year. Besides following the method of calculation, a taxpayer has to know whether the payee has a tax identification number. Otherwise, if the payee does not have the number, the amount of tax withheld under Article 21 is subject to 20 per cent additional tax.

Income tax based on Article 22 concerns four activities, namely importation, government procurement, sales of companies operating in certain industries, and selling of exceedingly luxurious goods. The first two activities do not relate to taxpayers in general because the tax withholders from those two are government institutions, in this case, the Custom and the Government Treasurer. The third relates to the selling of goods by companies in certain industries such as automotive and cement manufacturing in which they have to withhold the income tax from the buyers when selling their products (Article 22 [1b]) with varying

rates (the Regulation of the Minister of Finance Number 154/PMK.03/2010). Similarly for the fourth type, if a taxpayer sells exceedingly luxurious goods based on Article 22 (1c), it has to withhold income tax from the buyer, with the rate of 5 per cent of the selling price. According to the Regulation of the Ministry of Finance 253/PMK.03/2008, the goods that are deemed as exceedingly luxurious goods are private planes, yachts, houses, apartments, and cars that cost more than a certain amount for each type of good. Besides that, if the buyer does not own tax identification number, the rate is doubled.

Income tax based on Article 23 stipulates that if a taxpayer pays dividends, interest, royalties, rents, and fees it has to withhold the income tax from the recipients with the rate of 15 per cent for the first four of these income sources (Article 23 [1a]) and 2 per cent for the last two (Article 23 [1c]). Regarding the last type of income, service fee, the current regulation stipulates that there are 27 types of fees where the payers have to withhold the tax from the recipients (the Regulation of the Minister of Finance Number 244/PMK.03/2008). Similar to income tax Article 22, if the recipient does not have a tax identification number, the rate is 100 per cent higher.

Income tax Article 26 concerns payments to foreign taxpayers. If a company pays the same type of expenses covered in Article 21 and 23 above to foreign taxpayers, it has to withhold income tax from the recipients with a rate of 20 per cent or the rate as determined by the tax treaty between Indonesia and the country where the recipients are registered.

4.4.4 Costs Related to Tax Payment

Considering that the amount of tax paid is not a part of the compliance costs, the costs related to tax payments are all expenditures related to the activities of the payment. This may include bank fees as mandated by the bank where the payment is made and the travel costs to the bank if the payment is made physically. In Indonesia, as discussed earlier, the payment has to be made through the appointed bank that in turn conveys the payment to the country's Treasury.

4.4.5 Costs Related to Tax Reporting

Related to the reporting frequency, the submission of tax returns can be grouped into two, namely monthly tax returns that apply to VAT and withholding taxes, and annual tax returns that applies to the income tax. The typical costs associated with this activity may include postal costs, travel costs if the taxpayer chooses to report directly to the tax office,

or internet costs if the taxpayers report their tax returns through an electronic filing mechanism.

4.4.6 Costs Related To Tax Audit, Objection and Appeal

Different from tax objections and tax appeals that are parts of the taxpayers' obligation, a tax audit is an activity conducted by the tax administration in which the taxpayer does not have the right to refuse. The purpose of a tax audit is to verify the correctness of the tax return submitted by the taxpayer or to pursue other goals such as the registration for VAT and the determination of the status of taxpayers in remote areas (Article 29 (1)). When audited, a taxpayer is required to show or to lend the books and supporting documents; to grant access to its premises; and to provide other information as needed by the auditors (Article 29 [3]).

According to the tax laws, taxpayers are audited if the taxpayers claim an overpaid tax; the taxpayers claim a net loss (instead of net income) in their financial statements; the taxpayers do not submit tax returns in due time; the taxpayers are involved in a merger, acquisition, liquidation, or leave Indonesia for good; and the tax return submitted is screened based on a risk analysis determined by the DGT (Minister of Finance 2007).

The product of a tax audit is a tax determination which contains the adjustments on the tax payable in cases where there is one; or a confirmation that the taxes already paid by the taxpayer are indeed conforming to the regulations. In the case where a taxpayer does not agree with the adjustments, they have the right to propose a tax objection within three months from the date of the determination (Article 25 [1] and 25 [3]). The obligations for the taxpayers under this regulation include preparing their version of the tax calculation which is different from what is stated in the tax determination, supporting their claim with adequate reasons, and supplying documents needed to prove their cases.

The product of a tax objection is the decision letter declared by the Regional Office within twelve months from when the objection is proposed, which contains one of the following results, namely to uphold the tax determination, to reduce the amount of the tax payable, or even to increase the tax payable. In the case where the taxpayer does not agree with the decision, it then can propose a tax appeal to a separate body named the Tax Trial within three month from when the decision is signed (Article 27 [1]). In this trial, the taxpayer or their proxy as well as the representatives from the tax administration, have to be present with supporting documents needed to strengthen their respective positions.

The trial could take places over a number of hearings. The final verdict has to be produced within one year.

4.5 Indonesian Tax Administration Reform

4.5.1 Reasons for Tax Administration Reform

Indonesian tax administration reform is a part of overall tax reform that also includes tax policy reform. According to the DGT (Directorate General of Taxes 2008), the reasons behind the tax reforms are the demand of more tax revenue to support the national budget and the low level of public trust toward the tax system. According to Brondolo et al. (2008, 8) there are three conditions that shape the tax administration reform in Indonesia, namely the macro-fiscal situation, the structure of the tax regime, and the weak state of the DGT's operation. Specifically, according to Rizal (2011), the reason for the tax administration reform is the low tax revenue and the need for more transparency and more fairness in tax administration.

Brondolo et al. (2008) argue that the macroeconomic condition in Indonesia is related to the Asian financial crisis in 1997 that, among others, caused the GDP to shrink and the depreciation of the national currency. This worsening condition forced the Indonesian government to formulate an economic reform program which was supported by the International Monetary Fund (IMF). In 2002, because of the target of reducing the budget deficit, tax revenue had to be increased significantly, and the government mandated the DGT to identify specific administrative measures to achieve the target. In the meantime, the economic reform that has to be implemented requires a sound investment climate, and tax administration was believed to be one of the impeding factors to doing business in Indonesia.

According to Brondolo et al. (2008), the structure of the tax system is viewed as sound, but the revenue is still low and there are still a number of features that unnecessarily complicate the administration in the field of income tax, VAT, and the luxury sales tax. The tax administration also has a number of weaknesses, including poor legal and governance frameworks, shortcomings in organisational and staffing arrangements, ineffective enforcement and taxpayer service programs, and out-dated information technology systems.

4.5.2 Tax Administration Reform

According to the official statement form the DGT (Directorate General of Taxes 2008, 4) the ongoing tax reform in Indonesia consists of two main parts, namely policy reform and administration reform. Policy reform is defined as the perfection of tax policies in order to create a sound and competitive tax system to stimulate investment, to provide a balance of the rights and obligations of the taxpayers, to provide easiness for taxpayers to fulfil their rights and obligations, and to provide justice and certainty. Included in the tax policy reforms are the amendments to the General Provisions and Tax Procedures (KUP) Act, Income Tax Act, and Value-added Tax Act, as well as their detailed regulations. Also enacted are special tax rules for companies operating in certain business sectors or locations.

Administration reforms are implemented through the tax administration modernisation, which is defined as the change in paradigm, performance, and value in the DGT that enables it to be professional and trustworthy (Directorate general of Taxes 2008, 5). Included in the tax administration reforms are organisation restructuring, automation in the tax administration's business processes, perfection in the human resources management, and implementation of a new code of conduct for the DGT employees. The essence of this reform, according to the DGT, is an implementation of good governance in the form of transparent and accountable tax administration supported by an advanced information and technology system. The strategy of the tax administration reform is to provide excellent service to taxpayers and at the same time to closely supervise the compliance of taxpayers (14). There are three goals of the reform, namely to increase the voluntary compliance, to enhance the public trust, and to raise the professionalism and integrity of the tax apparatus.

There are three aspects of the organisational changes. First, the unification of three separate tax offices (i.e. Tax Service Office, Tax Audit and Investigation Office, and Land and Building Tax Office) into a single Tax Service Office. Second, the formation of new tax offices based on the segmenting of taxpayers into an LTO (Large Taxpayers Office), MTO (Medium Taxpayers Office), and STO (Small Taxpayers Office). Lastly, the addition of a new position named Account Representative (AR) in every tax office. The functions of the ARs are to provide consultation to taxpayers whenever needed, to remind taxpayers of their tax obligation, and to update taxpayers on any new tax rules and regulations.

With respect to the business process and the information and communication system, included in this reform is the writing of all standard operating procedures, the launching of e-filing (internet-based tax filing), e-payment (internet-based tax payment), and e-registration (internet-based tax number registration), the determination of an audit plan based on risk analysis, a program on enhancing compliance for taxpayers who do not file their tax return, and the optimisation of third party data.

In human resource management, the reform covers the establishment of job grading, assessment centres, and a competence database. Included in the governance reform is the establishment of internal and external supervision, code of conducts, and internal audit and risk management.

The discussion on Indonesian tax administration reforms is best summarised by Brondolo et al. (2008), who distinguish between short-term and medium-term reforms (20–22). The short-term reforms cover the revenue generation program, the establishment of a special tax office for largest taxpayers, and the introduction of electronic tax payments processing. The medium term reforms cover ten initiatives, including the broadening of the LTO, the establishment of the MTO and the STO, the simplification of major taxes, and the introduction of the new human resources policies.

Pakpahan (2012) provides a comprehensive list of the initiatives under each of the elements of tax administration reform, as presented in Table 4.4.

Table 4.4: Indonesian Tax Administration Reform

Organisation	Human Resource Management	ICT Business Process	Good Governance
Taxpayers Segmentation based on size	Competency Mapping for all ±32,000 employees	Introduction of e-registration, e-filing, e-SPT (tax returns), e-payment	Code of Conduct : clearly states obligations and prohibitions for staff along with sanctions for any violations of Code of Conduct
Functional–based organizational structure	Job Evaluation and Workload Analysis	Case Management and Workflow System for Administration and Service	Independent institutions to oversee code of conduct, such as Code of Conduct Committee in the Ministry of Finance and other supervisory agencies
Customer Oriented -Account Representative (Consultation and Supervision)	Job Grading for Rotation and Promotion	Risk analysis for law enforcement: Tax Audit, Collection, Investigation	Internal Control units: preventive and reactive roles
Separation of function: Tax	Assessment Centre	Inbound-Outbound Call	Complaint

Audit managed by tax office, Objection managed by regional office		Centre and Non-Filers Activation Centre	management: procedures (SOP), follow-up, and monitoring system on taxpayer's complaints
New functions of internal control and development/transformation	Job Competency Standard	Simplified tax forms	Better reporting system
	Capacity Building with Adult Learning Principles	Integrated supporting information systems: Personnel, Finance, Assets	
	Remuneration Policy	Improvement in SOPs and Reporting System	

Source: Pakpahan (2012, 10)

4.5.3 Large and Medium Taxpayers Office and Account Representatives

The history of the establishment and development of modern tax offices is outlined by Brondolo et al. (2008, 26–27). The first LTO was established in July 2002 to administer 200 large enterprises and their 300 branches which contribute 23 per cent of national tax revenue. In 2004, 100 companies are added and the proportion is then 27 per cent of tax revenue. All the new systems are implemented in this new office. The formation of LTOs produces excellent results (27) indicated by the high growth rate of tax collection and high a degree of taxpayer satisfaction. The program is broadened in 2005 with the formation of MTOs and STOs for taxpayers in the size below those registered in LTOs. As of December 2010, there are 4 LTOs, 28 MTOs, and 299 STOs (Directorate General of Taxes 2011, 20).

Under these modern tax offices, there is a new position named Account Representatives (AR), that according to Brondolo et al. is a "key feature" (p. 26) in the modernised tax system. Each AR is assigned a set of large taxpayers. The functions of each AR, as pointed out by Brondolo (2008, 26) and Rizal (2011, 424–426), is providing services and supervising the compliance of taxpayers under his/her assignment. Included in the duty of providing service are acting as the first contact between taxpayers and the tax office, giving clarification on tax regulations whenever needed, straightening out problems regarding taxpayers accounts with the DGT, and processing tax refunds. Including in the supervising duty are closely monitoring taxpayers filings and payment obligations, keeping and updating taxpayers data and profiles, supplying data to other units, and conducting initial risk analysis.

4.6 Chapter Summary

This chapter has discussed the features of the Indonesian tax system as well as the drivers of the compliance costs and the tax administration reform that was undertaken during 2002–2009. The role of tax revenue in the state's budget has increased from 52 per cent in 2001 to 63 per cent in 2010, supported by the steady increase in the number of taxpayers both individual and corporations.

There are three main types of taxes in Indonesia, namely CIT, VAT, and WHT. Each of these types has different treatments and requirements which each taxpayer has to understand and implement during the year and to report accordingly in certain periods. Besides these, all taxpayers also have to face periodical activates such as registration (if any), calculation, payment and reporting of all type of taxes each with associated costs. The tax laws grant the rights to taxpayers to propose tax objections or appeals; during which taxpayers are also faced with certain associated costs.

Tax administration reform has been implemented in the last decade covering organisational aspects, human resources management, information technology and governance. It is interesting to investigate whether this reform has met the expectations and whether the changes affect the compliance costs, as will be discussed in the following chapters.

Chapter 5. The Magnitude and the Features of the Compliance Costs of Large Corporate Taxpayers in Indonesia

5.1 Introduction

This chapter discusses the main results of this research, which are the estimates and the features of compliance costs of large corporate taxpayers in Indonesia. The discussion not only covers the magnitude of the costs but also how these costs differ across a number of factors, mainly the sectors in which the companies operate, the length of the operation of the companies, and the size of the companies in terms of their annual turnover.

After the discussion on the execution of the survey and the response rate is presented in Section 5.2, the profile of respondents is presented in Section 5.3 to provide an overview of what type of companies are participating in the survey. Section 5.4 then portrays the estimate of the costs, including their differences among pertinent factors. It is then followed by Section 5.5 on the features of the compliance costs. This includes a discussion on the components of the costs, the internal and external proportions of the costs, the computational and planning elements, the different compliance costs across different size of the companies in terms of the number of employees, total assets and annual turnover, the compliance costs based on tax payments, the compliance costs assigned to different types of taxes, the use of tax consultants, and the costs of tax audits, tax objections and tax appeals. Sections 5.6, 5.7, 5.8 and 5.9 calculate the gross national compliance costs, cash flow benefits, and tax deductibility benefits in sequence, and finally the net compliance costs. Section 5.10 summarises the discussion.

5.2 Survey and Response Rate

In this research, 3,000 mail questionnaires were sent to the intended respondents with a moderate expectation that ten per cent (300 respondents) would reply. Within the duration of two weeks, six questionnaires were received back because of wrong addresses. Considering this small number of undelivered mail it was decided that a substitution was unnecessary.

After a three-week period, 191 responses were received. The first reminder letters were sent to 500 taxpayers from the list of respondents; these letters were not sent to all respondents because of the cost consideration. After this remainder, 37 more responses were received. The second/final reminder letters were sent to the same 500 taxpayers to whom the first reminders were sent. After these final reminders, an additional 19 responses were received, and the total responses equalled 247. One of these responses was not used in this research because of the unusually high amount of reported compliance costs. The overall response rate is thus 8.22 per cent. The activities and responses of the mail survey are summarised in Table 5.1.

Table 5.1: Activities and Responses of the Mail Survey

Activity	Number
Questionnaires sent	3,000
Out of frame	6
Responses received	191
First reminder sent	500
Responses received after first reminder	37
Second reminder sent	500
Responses received after second reminder	19
Total responses received	247
Unusable responses	1
Usable responses	*246*
Usable response rate, %	*8.22*

5.3 Profile of Respondents

The respondents of this research come from a number of different sectors in the economy, with most from the manufacturing sector (33%), followed by the retail and wholesale trading sectors (31%), and the least from the real estate sector, as illustrated in Table 5.2.

Table 5.2: Breakdown of Respondents Based on Sector

Sector	n	Sector's proportion in the sample, %	Sector's proportion in the population, %*
Retail and wholesale trading	77	31	39
Manufacturing	81	33	23
Service	19	8	5
Transportation, warehouse, communication	13	5	5
Construction	13	5	5
Reals estate, rental	6	2	7
Mining, extraction	8	3	1
Others	29	12	16
Overall	*246*	*100*	*100*

Note: * The last column is taken from Table 3.1 in Chapter 3. n = number of respondents.

From Table 5.2 it can be seen that the manufacturing sector, which represents the biggest percentage in the sample (33%), accounts for 23 per cent in the population. The retail and wholesale trading sector with 31 per cent representation in the sample, accounts for 39 per cent of the population. The correlation coefficient calculated between the proportion of the sectors in the sample and that in the population is 0.91; meaning that the respondents reasonably represent the population in terms of the sector.

Besides a wide array of sectors, respondents operate in different geographical locations in Indonesia, as shown in Table 5.3.

Table 5.3: Breakdown of Respondents Based on Location

Location	n	Location's proportion in the sample, %	Location's proportion in the population, %*
Java	193	79	75
Sumatera	20	8	15
Sulawesi	6	2	3
Others	27	11	7
Overall	*246*	*100*	*100*

As shown in Table 5.3 the majority of the respondents are operating in Java Island (79%), followed by the Island of Sumatera (8%) and Sulawesi (2%) with the remaining samples are from other islands (11%). The correlation coefficient calculated between the proportion of the locations in the sample and that in the population is 0.99; meaning that the respondents represent the population in term of the location.

From the responses received, it is also known that the companies participating in this survey have been operating for a substantial length of time, as shown in Table 5.4.

Table 5.4: Breakdown of Respondents Based on the Length of Operation

Length of operation	n	%
More than 10 years	184	75
5-10 years	50	20
1-5 years	12	5
Overall	*246*	*100*

As can be seen in Table 5.4 the majority (75%) of the respondents have been operating for more than 10 years, followed by a duration of between five and ten years (20%). The companies with less than five years in operation account for 12 companies, or five per cent.

Similar to their length of operation, the companies partaking in this survey also have been registered in their respective tax offices for a relatively long time, as shown in Table 5.5.

Table 5.5: Breakdown of Respondents Based on the Length of Registration

Length of registered status	n	%
More than 10 years	100	41
5–10 years	111	45
1–5 years	24	10
Less than 1 year	10	4
Overall	*245*	*100*

Note: One respondent did not answer this question.

From Table 5.5 it can be seen that the majority of the respondents have been registered in their current tax offices for between five to ten years (45%) followed closely by the duration of more than 10 years (41%). Only four per cent (10 companies) of respondents have been registered in their current tax offices for less than one year, and one company did not state how long it has been registered.

While the respondents participating in this survey based on sector, location, the length of operation and the length of registration are distributed unevenly among their respective groups, the composition based on the number of employees is more balanced, as shown in Table 5.6.

Table 5.6: Breakdown of Respondents Based on the Number of Employees

Number of employees	n	%
Under 100 employees	64	26
101–500 employees	70	29
501–1,000 employees	67	27
1,001–5,000 employees	30	12
More than 5,000 employees	15	6
Overall	246	100

From table 5.6 it can be seen that there is a relatively balanced proportion among the companies with less than 100 employees, between 101 and 500 employees, and between 501 and 1,000 employees with the percentage of 26, 29, and 27 respectively. Together they account for 82 per cent of the total respondents. The other 18 per cent comprises the companies with more than 1,000 employees.

Even though the composition of the companies based on the number of employees is relatively even, particularly for the three groups with the least number of employees, the proportion based on the amount of their annual turnover is skewed to the bigger companies, as can be seen in Table 5.7.

Table 5.7: Breakdown of Respondents Based on Turnover

Amount of annual turnover	n	%
Less than IDR3 billion	6	2
IDR3 billion-IDR10 billion	39	16
IDR10 billion-IDR50 billion	68	28
IDR50 billion-IDR100 billion	36	15
More than IDR100 billion	97	39
Overall	*246*	*100*

From Table 5.7 it can be seen that the biggest percentage comprises companies with an annual turnover of more than IDR100 billion (39%), followed by companies whose annual turnover is between IDR10 and 50 billion (28%).

Comparable to the proportion based on the amount of annual turnover that shows the group with the greatest annual turnover sitting in the first place, the composition of the respondents based on total assets also shows that the respondents with the most assets represent the largest population in the sample, as can be seen in Table 5.8. From Table 5.8 it can be seen that the biggest percentage comprises the companies with total assets of

more than IDR100 billion (43%), followed by companies whose annual turnover is between IDR3 and 10 billion (22%).

Table 5.8: Breakdown of Respondents Based on the Amount of Total Assets

Amount of assets	n	%
Less than IDR3 billion	18	7
IDR3 billion-IDR10 billion	53	22
IDR10 billion-IDR50 billion	41	17
IDR50 billion-IDR100 billion	29	12
More than IDR100 billion	105	43
Overall	*246*	*100*

During the year researched, which is 2010, a number of companies undertook several non-routine activities, namely being audited, proposing tax objections and/or tax appeals, as depicted in Table 5.9.

Table 5.9: Breakdown of Respondents Based on Non-Routine Activities

Non-Routine Activities	n	%
Tax auditing	95	39
Tax objection	36	14
Tax appeal	14	6

From Table 5.9 it can be seen that 39 per cent of the respondents were audited during 2010. Tax objection was proposed by 14 per cent of respondents, which is expectedly lower than the number of audited companies considering that the tax objection can only be proposed by taxpayers that have been audited. Tax appeals were proposed by six per cent of the respondents, which is lower than both taxpayers who are audited and taxpayers who proposed tax objections, and this is because the appeals can only be proposed by the taxpayers who do not agree with the results of both the tax audit and tax objection.

There are three types of tax that are generally paid by companies in Indonesia, namely CIT, VAT and a number of WHTs. The composition of the respondents based on the amount of each tax paid is presented in Tables 5.10 to 5.12.

Table 5.10: Breakdown of Respondents Based on the Amount of CIT Payment

Amount of CIT paid in 2010	n	%
Less than IDR100 million	127	52
IDR100 million–IDR500 million	27	11
IDR500 million–IDR1 billion	31	13
IDR1 billion–IDR10 billion	18	7
IDR10 billion–IDR50 billion	40	16
More than IDR50 billion	2	1
Overall	*246*	*100*

From Table 5.10 it can be seen that more than half (52%) of respondents pay CIT of less than IDR100 million, followed by the companies who pay between IDR10 billion and IDR50 billion (16%).

Table 5.11: Breakdown of Respondents Based on the Amount of VAT Payment

Amount of VAT paid in 2010	n	%
No response	3	1
Less than IDR100 million	66	27
IDR100 million–IDR500 million	29	12
IDR500 million–IDR1 billion	20	8
IDR1 billion–IDR10 billion	97	39
IDR10 billion–IDR50 billion	1	1
Overall	*246*	*100*

From Table 5.11 it can be seen that the biggest proportion of the respondents come from the companies who pay VAT between IDR1 billion and IDR10 billion (39%), followed by the payment of less than IDR100 million (27%).

Table 5.12: Breakdown of Respondents Based on the Amount of WHT Payment

Amount of WHT paid in 2010	n	%
No response	9	4
Less than IDR100 million	64	26
IDR100 million–IDR500 million	80	33
IDR500 million–IDR1 billion	11	5
IDR1 billion–IDR10 billion	61	25
IDR10 billion–IDR50 billion	21	9
Overall	*246*	*100*

From Table 5.12 it can be seen that the biggest proportion of the respondents comprises companies with the WHT payment between IDR100 million and IDR500 million (33%),

followed by the companies who pay less than IDR100 million (26%) and between IDR1 billion and IDR10 billion (25%).

5.4 Estimated Aggregate Tax Compliance Costs

5.4.1 Compliance Costs and the Sectors

The results of the research show that in 2010 the weighted average compliance costs per company are estimated to be IDR420,933,442[7] (around AUD38,621 using the December 2013 exchange rate[8]) and they differ across economic sectors in which the companies are operating as shown in Table 5.13.

Table 5.13: Average Compliance Costs by Sector

Sector	Mean	Median	Minimum	Maximum	Std. Deviation
Retail and wholesale trading	506,022,878	336,560,040	35,000,000	4,042,567,480	589,552,770
Manufacturing	488,861,830	271,000,000	51,600,000	4,229,369,529	700,535,338
Service	249,647,368	100,150,000	40,850,000	780,250,000	228,391,531
Transportation, warehouse, communication	230,055,600	185,000,000	61,800,000	619,500,000	174,079,858
Construction	307,434,369	73,800,000	24,000,000	2,032,106,800	604,328,623
Real estate, rent	305,508,820	283,826,460	136,200,000	456,500,000	124,388,133
Mining, extraction	51,375,000	51,000,000	30,000,000	72,000,000	13,362,394
Others	379,770,152	334,363,440	79,250,000	1,526,000,000	255,787,748
Overall	*420,933,442*	*283,931,880*	*24,000,000*	*4,229,369,529*	*559,236,597*
Std. deviation among sectors	147,379,301				

The average compliance costs vary greatly from one company to another, as shown by the difference between the maximum costs (IDR4,229 million in the manufacturing sector) and the minimum costs (IDR24 million in the construction sector). It is also reflected in the standard deviation of IDR559 million.

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

[8] December 2013 is the time of the writing of this thesis. Exchange rate data are obtained from the Reserve Bank of Australia at http://www.rba.gov.au/statistics/hist-exchange-rates/index.html, 13 February 2014.

The results show that the largest compliance costs are borne by companies operating in the retail and wholesale trading sector (IDR506 million), followed by the manufacturing sector (IDR488 million) and "other" sector (IDR379 million), and the smallest by those in the mining and extraction sectors (IDR51 million). However, due to the small sample size of the latter sector (6 companies), this low figure should be treated with great caution. The standard deviation of the costs based on the sector is IDR147 million; indicating that the difference among sectors is not overly high.

Table 5.13 also shows that within each sector the costs differ significantly as indicated by the standard deviation of each sector, especially for the sectors of retail and wholesale trading (IDR589 million), manufacturing (IDR700 million), service (IDR228 million), construction (IDR604 million), and "other" sector (IDR255 million). This could be explained by the fact that the respondents from those sectors are distributed unevenly based on their annual turnover category as shown in Table 5.14.

Table 5.14: Number of Respondents Based on Sector and Annual Turnover

Sector	Turnover Group*					n**
	1	2	3	4	5	
Retail and wholesale trading	4	21	24	11	17	77
Manufacturing	0	1	24	16	40	81
Service	0	10	0	0	9	19
Transportation, warehouse, communication	0	3	2	5	3	13
Construction	1	0	10	0	2	13
Real estate, rent	0	2	1	0	3	6
Mining, extraction	0	0	0	2	6	8
Others	1	2	7	2	17	29
	6	39	68	36	97	246

Note: *Turnover group: 1 = Less than IDR3 billion, 2 = IDR3 billion–IDR10 billion, 3 = IDR10 billion–IDR50 billion, 4 = IDR50 billion–IDR100 billion, 5 = More than IDR100 billion. **n = number of respondents.

From Table 5.14 it can be seen that among 77 respondents in the retail and wholesale trading sector, four companies have an annual turnover of less than IDR3 billion, while 21 companies are in the range of IDR3 billion to IDR10 billion, and 17 companies have annual sales of more than IDR100 billion. The same reasoning also applies to the construction sector in which ten companies have an annual turnover in the range of IDR10 billion to IDR50 billion while the remaining two companies in this sector have an annual turnover of more than IDR50 billion and no respondents are in the other categories.

In order to investigate whether the companies in the retail and wholesale trading sector consistently bear greater compliance costs than other sectors, the compliance costs of different groups of annual turnover are compared, especially where a significant number of

companies from different sectors are represented (with five companies assigned to be the signifier). From Table 5.14, in turnover group 2, the service sector is represented by 10 companies; therefore, this sector is compared with the retail and wholesale trading sector while the other sectors are not because the number of the companies in the sample is less than 5. Likewise, in the annual turnover group 3, two sectors are compared with the retail and wholesale trading sector, namely the manufacturing, construction and "other" sector. In group 4, only the manufacturing sector is compared, while in category 5, four sectors are compared. The results are presented in Tables 5.15 to 5.18.

Table 5.15: Compliance Costs of Companies with Annual Turnover between IDR3 billion and IDR10 billion Based on Sector

Sector	n	Mean	Median	Minimum	Maximum	Std. Deviation
Retail and wholesale trading	21	226,554,286	201,660,000	117,190,000	693,000,000	114,918,203
Manufacturing	10	58,548,000	53,260,000	40,850,000	100,150,000	19,737,772

In the group of companies with annual turnover between IDR3 billion and IDR10 billion, as shown in Table 5.15, the average compliance costs of companies in the retail and wholesale trading sector are significantly greater than those of the manufacturing sector, namely IDR226 million compared to IDR58 million respectively. The minimum and maximum costs of the retail and wholesale trading sector are greater as well at IDR117 million and IDR693 million respectively compared to IDR48 million and IDR100 million respectively.

Table 5.16: Compliance Costs of Companies with Annual Turnover between IDR10 billion and IDR50 billion Based on Sector

Sector	n	Mean	Median	Minimum	Maximum	Std. Deviation
Retail and wholesale trading	24	386,048,855	355,300,000	40,800,000	552,300,000	117,015,942
Manufacturing	24	158,770,357	128,100,000	94,200,000	358,363,440	78,741,273
Construction	10	74,704,000	72,550,000	63,400,000	93,800,000	10,437,270

In the group of companies with annual turnover between IDR10 billion and IDR50 billion in Table 5.16, it once again can be seen that the mean compliance costs of companies in the retail and wholesale trading sector are greater than those in the manufacturing and construction sectors, at IDR386 million compared to IDR158 million and IDR74 million respectively. The minimum costs of the retail and wholesale trading sector is smaller than in the manufacturing and construction sectors at IDR40 million compared to IDR94 million

and IDR63 million. Meanwhile, the maximum compliance costs in this category for the retail and wholesale trading sector are significantly greater than in the manufacturing and construction sectors at IDR552 million compared to IDR358 million and IDR93 million respectively.

Table 5.17: Compliance Costs of Companies with Turnover between IDR50 billion and IDR100 billion Based on Sector

Sector	n	Mean	Median	Minimum	Maximum	Std. Deviation
Retail and wholesale trading	11	775,748,345	669,500,000	59,400,000	1,638,000,000	502,380,030
Manufacturing	16	429,275,375	213,021,360	51,600,000	1,917,856,800	550,053,625

In the bigger annual turnover group of IDR50 billion to IDR100 billion as illustrated in Table 5.17, it is once again shown that the retail and wholesale trading sector incurs greater compliance costs (IDR775 million) than the manufacturing sector (IDR429 million). The minimum costs of the companies in the retail and wholesale trading sector are greater than those of manufacturing sector, but the maximum costs are lower, at IDR59 million and IDR1,638 million compared to IDR51 million and IDR1,917 million respectively.

Table 5.18: Compliance Costs of Companies with Turnover of more than IDR100 billion Based on Sector

Sector	n	Mean	Median	Minimum	Maximum	Std. Deviation
Retail and wholesale trading	17	941,133,162	551,925,000	228,000,000	4,042,567,480	1,020,042,425
Manufacturing	40	718,942,841	389,800,000	126,000,000	4,229,369,529	872,401,352
Service	9	461,980,000	418,250,000	314,680,000	780,250,000	143,381,581
Other	17	418,117,868	341,442,720	149,400,000	1,526,000,000	310,605,728

As can be seen in Table 5.18, there are four sectors that have more than five companies represented in the sample in the greatest annual turnover group, namely the retail and wholesale trading, manufacturing, service and “other” sectors. Likewise, it is shown that the retail and wholesale trading sector has the greatest average compliance costs of IDR941 million compared to IDR718 million, IDR 461 million and IDR418 million for manufacturing, service and other sectors, respectively. However, both the minimum and maximum compliance costs of companies in the retail and wholesale trading sector do not sit in the highest place because the minimum costs of IDR228 million of companies in the retail and wholesale trading sector is still lower than in the service sector of IDR314 million, while the maximum costs of IDR4,402 million of companies in the retail and wholesale

trading sector is also lower than the IDR4,229 million of companies in the manufacturing sector.

Overall, from the comparison of compliance costs among sectors in all annual turnover categories, it can be seen that in all categories from the lowest annual turnover group to the highest annual turnover group, companies operating in the retail and wholesale trading sector consistently bear the highest tax compliance costs.

5.4.2 Tax Compliance Costs and the Length of Operation

The average compliance costs differ between companies with different lengths of operation. Without considering the size of the companies, the longer the companies are operating, the greater are the average compliance costs, as shown in Table 5.19. As can be seen in this table, companies with more than 10 years of operation bear the greatest compliance costs with IDR480 million, followed by companies with 5–10 years of operation with IDR259 million and the lowest costs are borne by companies with an age of one to five years at IDR174 million.

Table 5.19: Compliance Costs Based on the Length of Operation

Length of operation	n	Mean	Median	Minimum	Maximum	Std. Deviation
More than 10 years	184	480,776,838	325,020,720	30,000,000	4,229,369,529	622,739,255
5-10 years	50	259,957,771	177,050,000	51,600,000	1,526,000,000	243,441,341
1-5 years	12	174,066,667	193,230,000	24,000,000	285,200,000	76,666,795
Overall	*246*	*420,933,442*	*283,931,880*	*24,000,000*	*4,229,369,529*	*559,236,597*

As in the case with sectors, the composition of the companies based on the length of operation is analysed, and the result is presented Table 5.20.

Table 5.20: Number of Respondents Based on the Length of Operation and Turnover

Length of operation	Turnover Group*					
	1	2	3	4	5	n
More than 10 years	2	21	49	23	89	184
5-10 years	2	8	19	13	8	50
1-5 years	2	10	0	0	0	12
Overall	*6*	*39*	*68*	*36*	*97*	*246*

Note: *Turnover group: 1 = Less than IDR3 billion, 2 = IDR3 billion–IDR10 billion, 3 = IDR10 billion–IDR50 billion, 4 = IDR50 billion–IDR100 billion, 5 = More than IDR100 billion. **n = number of respondents.

It can be seen from Table 5.20 that companies with more than 10 years of operation are dominated by companies in group 5 of annual turnover (i.e. companies with annual turnover of more than IDR100 billion) with 89 out of 184 companies (48%); compared with only 8 out of 50 companies (16%) in the group of companies with 5–10 years operation and no company in the group of companies with 1–5 years of operation.

In order to investigate further, the compliance costs of each category of annual turnover are compared, with five companies as the signifier of each group. Therefore, the compliance costs of group 1 of annual turnover are not compared because the representation of each group based on the length of operation is too small (only two companies) to lead to any meaningful conclusions. In group 2 of annual turnover, composition of companies in each group of operation is compared because all of the groups based on the length of operations are represented by more than five companies. Meanwhile, in annual turnover groups 3, 4 and 5 the two groups of more than 10 years operation and 5–10 years of operation are compared because there is a large number of representatives, with 49, 23, and 89 companies compared to 19, 13, and 8 companies for each group respectively. The results are presented in Tables 5.21 to 5.24.

Table 5.21: Compliance Costs of Companies with Annual Turnover between IDR3 billion and IDR10 billion Based on the Length of Operation

Length of operation	n	Mean	Median	Minimum	Maximum	Std. Deviation
More than 10 years	21	140,282,381	100,150,000	40,850,000	693,000,000	141,600,023
5-10 years	8	204,842,500	222,175,000	117,190,000	266,190,000	52,681,746
1-5 years	10	202,980,000	198,580,000	137,160,000	285,200,000	40,050,554

As can be seen in Table 5.21, in the group of companies with annual turnover between IDR3 billion and IDR10 billion, companies with 5-10 years of operation bear the most compliance costs with IDR204 million, slightly higher than the companies with 1-5 year of operation but significantly higher that the companies with more than 10 years of operation. The minimum costs of companies with more than 10 years of operation at IDR40 million are the smallest compared to the others but their maximum costs at IDR693 million are the greatest.

Table 5.22: Compliance Costs of Companies with Annual Turnover between IDR10 billion and IDR50 billion Based on the length of Operation

Length of operation	No. of companies	Mean	Median	Minimum	Maximum	Std. Deviation
More than 10 years	49	259,562,589	284,063,760	40,800,000	552,300,000	161,373,270
5-10 years	19	224,357,632	152,440,000	96,800,000	369,650,000	106,076,204

As presented in Table 5.22, it can be seen that both group of companies, based on the length of operation, do not differ significantly in their compliance costs in the group of companies with annual turnover between IDR10 billion and IDR50 billion at IDR259 million and IDR224 million for companies with more than 10 years of operation and those with five to ten years of operation, respectively. The minimum costs for the former are smaller than that of the latter, but the maximum costs are greater.

Table 5.23: Compliance Costs of Companies with Annual Turnover between IDR50 billion and IDR100 billion Based on the Length of Operation

Length of operation	n	Mean	Median	Minimum	Maximum	Std. Deviation
More than 10 years	23	661,523,383	612,921,360	30,000,000	1,917,856,800	547,213,690
5-10 years	13	145,515,385	70,200,000	51,600,000	659,500,000	184,977,827

It can be seen from Table 5.23 that in the group of companies with annual turnover between IDR50 billion and IDR100 billion, companies operating more than 10 years have greater compliance costs than companies with five to ten years of operation at IDR661 million compared to IDR145 million.[9]

Table 5.24: Compliance Costs of Companies with Annual Turnover of more than IDR100 Billion Based on the Length of Operation

Length of operation	No. of companies	Mean	Median	Minimum	Maximum	Std. Deviation
More than 10 years	89	641,384,310	375,480,000	42,000,000	4,229,369,529	788,525,865
5-10 years	8	620,550,000	492,800,000	372,500,000	1,526,000,000	372,559,675

It can be seen from Table 5.24 that in the group of companies with annual turnover of more than IDR100 billion, the compliance costs between companies with more than 10

[9] Even after omitting a company with a very high compliance costs of IDR1,917 million in the group with more than ten years of operation, the average compliance costs of this group would be IDR604 million; a figure that is still higher than IDR145 million in the other group in Table 5.23.

years of operation and those with five to ten years of operation do not differ significantly at IDR641 million and IDR620 million respectively. Further, there are a very high compliance costs of IDR4,229 million experienced by one company in the more than 10 years of operation category. These findings suggest that the length of operation does not affect significantly the compliance costs of this group.

Overall, based on the discussion above and shown in Tables 5.21 to 5.24, the length of operation of the companies does not significantly affect the compliance costs when companies in the same range of annual turnover are examined. In the range of annual turnover of IDR3 billion to IDR10 billion, companies with five to ten years of operation bear the greatest compliance costs. In the range of annual turnover of IDR10 billion to IDR50 billion, companies with more than 10 years of operation have the greater compliance costs compared to companies with five to ten years of operation, albeit with a small difference. In the range of annual turnover of IDR50 billion to IDR100 billion, again companies with more than 10 years of operation bear more compliance costs than companies with five to ten years of operation. Lastly, in the category of more than IDR100 billion annual turnover, companies with more than 10 years of operation have greater compliance costs than the younger companies, again with small differences.

5.5 The Features of Tax Compliance Costs

5.5.1 Components of Compliance Costs

The compliance costs paid during the year could be grouped as routine and non-routine costs. The routine costs include staff salaries, payment for other costs (e.g. transportation, utilities, and stationery), fees to tax consultants, additional costs related to tax returns and the value of time spent by the management to oversee the management of the taxes. Non-routine costs include the costs related to tax audits, tax objections and tax appeals. Respondents were asked to detail their compliance costs in each of the components, and the results are presented in Table 5.25.

Table 5.25: Components of Average Compliance Costs

Element	Average amount, IDR	%
Staff	201,635,657	48
Other costs	27,244,805	6
Consultant fees	39,863,415	9
Value of time spent	71,273,550	17
Costs related to tax returns	21,168,110	5
Costs related to tax audits	43,496,789	10
Costs related to tax objections	10,530,589	3
Costs related tax appeals	5,720,529	1
Overall	*420,933,442*	*100*

From Table 5.25, it can be seen that the largest contributor to the costs is the payment for tax staff in the companies which on average accounts for almost half of the costs (48%), followed by time spent by management (17%) and then audit costs (10%). The proportion of routine costs (staff, other costs, consultant fees, value of time and costs related to tax returns) is 86 per cent, and the proportion of non-routine costs is 14 per cent.

The reason why the staff salaries contribute most of the costs is that, except for two respondents, all companies hire various numbers of full-time staff to handle taxation matter in their companies. The average number of persons employed by each company is 2.44. The detail is presented in Table 5.26.

Table 5.26: Number of Full-time Employees Dealing with Taxes

Number of staff	n	%
0	2	0.8
1	69	28.0
2	82	33.3
3	66	26.8
4	6	2.4
5	13	5.3
6	1	0.4
7	2	0.8
8	2	0.8
10	1	0.4
17	1	0.4
18	1	0.4
Overall	*246*	*100.0*

The number of full-time staff hired to manage taxes in a company naturally depends on the size of the company. The larger the size, the more people are hired, as shown in Table 5.27.

Table 5.27: Number of Full-time Staff Based on Annual Turnover

Turnover	Average number of staff	Min	Max
Less than IDR 3,000,000,000	0.8	0	2
IDR3 billion-IDR10 billion	1.5	1	2
IDR10 billion-IDR50 billion	2.1	1	3
IDR50 billion-IDR100 billion	2.4	1	5
More than IDR100 billion	3.2	1	18
Overall	2.44	0	18

It can be seen in Table 5.27 that the average number of full-time staff steadily increases when the size of the companies grows. For the smallest companies, the average number of staff is 0.8 persons per company. It increases to 1.5 persons per company with annual turnover between IDR3 billion and IDR10 billion. The average number rises to 3.2 persons per company with annual turnover of more than IDR100 billion.

The time spent by management contributes almost 17 per cent of the costs. The monetary value of time spent is based on the respondents' estimations. The amount of time spent is presented in Table 5.28. The annual costs for the time used by the management is IDR71 million, as can be seen in Table 5.25 in the fifth row.

Table 5.28: Time Spent by the Management to Deal with Taxes

Position	Average time spent per month, hours
Chief Executive Officer	1.58
Chief Finance Officer	8.37
Accounting Manager	23.73
Other Managers	10.73

The fact that the audit costs contribute 10 per cent of the total costs is not surprising because as many as 95 companies (39%) were audited during 2010 as shown previously in Table 5.9. Each audit costs some IDR112 million (as shown later in table 5.52), and for the whole sample the audit costs account for the average of IDR43 million per company.

In order to investigate whether the proportion of each component differs between sectors, the length of business and the size of companies, a further analysis is needed, and the results are presented in Tables 5.29 to 5.31.

Table 5.29: Composition of the Compliance Costs Based on Sector

Element	Sector*							
	1 IDR mill. %	2 IDR mill. %	3 IDR mill. %	4 IDR mill. %	5 IDR mill. %	6 IDR mill. %	7 IDR mill. %	8 IDR mill. %
Staff	203 (40)	288 (59)	128 (51)	106 (46)	85 (28)	141 (46)	34 (66)	155 (41)
Other costs	34 (7)	33 (7)	7 (3)	7 (3)	24 (8)	28 (9)	2 (5)	25 (7)
Consultant fees	51 (10)	39 (8)	27 (11)	29 (13)	2 (1)	37 (12)	9 (17)	54 (14)
Value of time spent	102 (20)	50 (10)	50 (20)	65 (28)	23 (7)	63 (21)	1 (2)	109 (29)
Costs related to tax returns	29 (6)	19 (4)	15 (6)	12 (5)	28 (9)	17 (6)	5 (10)	18 (5)
Costs related to tax audit	59 (12)	43 (9)	21 (8)	10 (4)	115 (37)	19 (6)	- -	18 (5)
Costs related to tax objection	17 (3)	12 (2)	- -	- -	25 (8)	- -	- -	- -
Costs related tax appeal	11 (2)	6 (1)	- -	- -	7 (2)	- -	- -	- -
Overall	506 (100)	489 (100)	250 (100)	230 (100)	307 (100)	306 (100)	51 (100)	380 (100)

*Note: Sector 1 = Retail and wholesale trading, 2 = Manufacturing, 3 = Service, 4 = Transportation, warehouse, communication, 5 = Construction, 6 = Real estate, rent, 7 = Mining, extraction, 8= others.

Table 5.29 shows the components of the costs based on the sector with both the nominal amount (IDR) and the portion of the components in the total costs presented. From Table 5.29, a number of inferences may be drawn. First, in almost all sectors, except sector 5 (i.e. the construction sector), staff payroll is the largest contributor of the compliance costs. This payment ranges from 28 per cent of the costs in the construction sector to 59 per cent in the manufacturing sector. Further investigation into the construction sector, where costs related to tax audits dominate the costs, reveals that in that sector in 2010 there are two companies (of 13 companies in that sector) that are audited and their costs related to the audits are IDR594 million and IDR875 million; these figures are significantly higher than the average costs of the companies in that sector of IDR307 million and that causes the average audit costs of this sector to jump. Had the audit costs of these two outliers been omitted, the payment to staff in this sector would have dominated the costs.

The second greatest contributor of the costs among sectors is the time spent by the management to oversee the fulfilment of tax obligations. The percentage ranges from two per cent in the mining and extraction sector to 29 per cent in “other” sectors. The third biggest contributor is the payment to tax consultants which range from one per cent in the construction sector to 17 per cent in the mining and extraction sector.

Table 5.30: Composition of the Compliance Costs based on the Length of Operation

Element	Length of Operation		
	More than 10 years IDR mill. %	5–10 years IDR mill. %	1–5 years IDR mill. %
Staff	246 (51)	46 (69)	83 (48)
Other costs	35 (7)	8 (3)	1 (1)
Consultant fees	33 (7)	65 (27)	52 (30)
Value of time spent	74 (15)	167 (19)	19 (11)
Costs related to tax returns	21 (4)	28 (12)	19 (11)
Costs related to tax audit	51 (11)	34 (14)	- -
Costs related to tax objection	14 (3)	3 (1)	- -
Costs related tax appeal	8 (2)	- -	- -
Overall	481 (100)	243 (100)	174 (100)

Table 5.30 shows the composition of the compliance costs based on the length of operation of the companies with both the nominal amount (IDR) and the percentage presented. There are two inferences that may be drawn from Table 5.30. First, again the greatest contributor of the compliance costs is payment to the staff of the company; it ranges from 48 per cent for companies with one to five years of operation to 69 per cent for companies aged ten to five years. Second, the more mature the company the less its dependency on tax consultants. It can be seen that the companies with the least years of operation (i.e. one to five years) pay an average of 30 per cent of their compliance costs to tax consultants, while the companies with five to ten years of operation pay approximately 27 per cent of their compliance costs and the companies with more than ten years of operation pay approximately seven per cent of their compliance costs to the consultants. The second biggest contributor for the companies with the most years of operation is time spent by the management; showing that these companies rely more on their own resources (15% of the costs for payment to the management) than outside agencies (7% to tax consultants).

Table 5.31: Composition of the Compliance Costs based on Annual Turnover

Element	Annual Turnover Group				
	1 IDR mill. %	2 IDR mill. %	3 IDR mill. %	4 IDR mill. %	5 IDR mill. %
Staff	49 (36)	82 (49)	113 (45)	185 (39)	328 (51)
Other costs	4 (3)	8 (5)	12 (5)	27 (6)	47 (7)
Consultant fees	39 (29)	24 (14)	29 (12)	39 (8)	54 (9)
Value of time spent	33 (25)	45 (27)	71 (28)	83 (17)	80 (13)
Costs related to tax returns	5 (4)	7 (4)	7 (3)	33 (7)	33 (5)
Costs related to tax audit	4 (3)	2 (1)	17 (7)	69 (15)	71 (11)
Costs related to tax objection	- (-)	1 (10)	- (-)	25 (5)	17 (3)
Costs related tax appeal	- (-)	- (-)	- (-)	14 (3)	9 (1)
Overall	133 (100)	170 (100)	250 (100)	475 (100)	640 (100)

Note: *Turnover group: 1 = Less than IDR3 billion, 2 = IDR3 billion–IDR10 billion, 3 = IDR10 billion–IDR50 billion, 4 = IDR50 billion–IDR100 billion, 5= More than IDR100 billion.

Table 5.31 shows the components of the compliance costs both in the nominal amount (IDR) and the percentage based on annual turnover groups. There are a number of inferences that can be drawn from Table 5.31. First, again payment to staff contributes the most for all size of the company groups. It ranges from 36 per cent for the smallest companies with less than IDR3 billion in annual turnover to 51 per cent for the biggest companies with more than IDR100 billion in annual turnover. Second, the dependency on tax consultants decreases as the size of company increases; with the exception of the two largest companies with only a slight difference of 8 and 9 per cent of the costs for companies with IDR50 billion–IDR100 billion in annual turnover and more than IDR100 billion in annual turnover, respectively. The percentage of compliance costs for this payment is decreasing from 29 per cent for companies under IDR3 billion in annual turnover to 14 per cent for companies with IDR3 billion–IDR10 billion annual turnover and to 12 per cent to companies with IDR10–IDR50 billion annual turnover. Next, time spent by the management to oversee the fulfilment of tax obligations is generally bigger as a percentage of total compliance costs in smaller companies than in the larger ones. The percentage of compliance costs spent to compensate time used by the management is 25, 27 and 28 per cent for the first three bands of annual turnover compared to 17 and 13 per cent for the larger companies. Conversely, payment in relation to tax audits is greater in larger companies compared to the smaller ones. This type of payment accounts for 15 and

11 per cent of total compliance costs for companies with IDR50billion–IDR100 billion and over IDR100 billion in annual turnover, respectively, while it is only three, one, and seven per cent for the smaller companies.

5.5.2 Internal and External Costs

From the questions on the components of the costs asked of the respondents[10], the expenditure for complying with the tax regulations can be grouped into two, namely internal costs and external costs. The internal costs consist of the payment to staff and other costs as well as the value of the time spent by the management to oversee the tax-related activities. The external costs are the costs paid to the tax consultants hired for managing routine activities as well as non-routine activities such as tax audits, tax objection and tax appeals. The composition is presented in table 5.32.

Table 5.32: Composition of Internal and External Costs

Payment	Average amount, IDR	%
INTERNAL COSTS		
Staff	201,635,657	47.90
Other costs	27,244,805	6.47
Value of time spent	71,273,550	16.93
Costs related to tax returns - staff	1,327,439	0.32
Costs related to tax returns - others	618,923	0.15
Costs related to tax audits - staff	2,148,171	0.51
Costs related to tax audits - others	704,106	0.17
Costs related to tax objections - staff	1,854,675	0.44
Costs related to tax objections - others	302,947	0.07
Costs related to tax appeals - staff	675,102	0.16
Costs related to tax appeals - others	123,679	0.03
Overall Internal Costs	*307,909,052*	*73.15*
EXTERNAL COSTS		
Routine costs - tax consultants	39,863,415	9.47
Costs related to tax returns - consultant fees	19,221,748	4.57
Costs related to tax audit - consultant fees	40,644,512	9.66
Costs related to tax objection - consultant fees	8,372,967	1.99
Costs related to tax appeal - consultant fees	4,921,748	1.17
Overall External Costs	*113,024,390*	*26.85*
Overall Compliance Costs	*420,933,442*	*100*

[10] Question number 2.2.

From Table 5.32 it can be seen that nearly three-quarters of the costs are spent on internal factors, such as for staff and other costs/items (utilities, stationery, transportation), while the remaining (just over a quarter) is spent for consultation and associated costs.

It is also discovered that payments to tax consultants contribute significantly to the costs. Overall, the costs for tax consultants account for almost 27 per cent of the costs, as shown in Table 5.32. The consultants are hired to deal with routine activities such as preparing monthly tax returns and other documents (contributes 9% of total costs); preparing annual income tax returns (almost 5%); representing taxpayers in tax audits (almost 10%); proposing tax objections and representing taxpayers in the objection process (just under 2%); and proposing tax appeals and representing taxpayers in the tax trial process (just over 1%). To put it another way, the greatest use of tax consultants is for dealing with tax audit with the equivalent of 36 per cent of total consultant fees (i.e. 10% consultant fees in tax audit divided by 27% total external costs), followed closely by undertaking routine activities at 35 per cent (i.e. 9% divided by 27%), preparing income tax return at 17 per cent (i.e. 5% divided by 27%), proposing tax objections and representing taxpayers in the objection process at 7 per cent (i.e. 0.07% divided by 27%); and proposing tax appeals and representing taxpayers in the tax trial process at 4 per cent (i.e. 0.03% divided by 27%).

In order to investigate whether this composition of internal and external costs is influenced by the sector in which the companies operate, the length of operation, and the size of the companies, further analysis is needed, and the results are presented in Tables 5.33 to 5.35.

Table 5.33: Composition of Internal and External Costs Based on Sector

Sector	Internal costs, IDR	%	External costs, IDR	%	Total	%
Retail and wholesale trading	351,442,359	69	154,931,887	31	506,374,245	100
Manufacturing	377,545,660	77	111,850,417	23	489,396,077	100
Service	186,647,368	75	63,000,000	25	249,647,368	100
Transportation, warehouse, communication	179,747,908	78	50,307,692	22	230,055,600	100
Construction	152,068,985	49	155,365,385	51	307,434,369	100
Reals estate, rental	232,175,487	76	73,333,333	24	305,508,820	100
Mining, extraction	45,287,000	88	6,088,000	12	51,375,000	100
Others	291,090,841	77	88,679,310	23	379,770,152	100
Overall	*307,909,052*	*73*	*113,024,390*	*27*	*420,933,442*	*100*

Table 5.33 presents the proportion of internal and external costs based on the sector in which the companies are operating. It shows that internal costs dominate the compliance

costs in each of the sectors, except in the construction sector where its proportion is almost the same as the external costs at 49 per cent compared to 51 per cent. For other sectors, the contribution of internal costs ranges from 69 per cent in the retail and wholesale sector to 88 per cent in the mining and extraction sector.

Table 5.34: Composition of Internal and External Costs Based on the Length of Operation

Length of operation	Internal costs, IDR	%	External costs, IDR	%	Total	%
More than 10 years	364,554,073	76	116,604,569	24	481,158,642	100
5-10 years	148,763,771	57	111,194,000	43	259,957,771	100
1-5 years	102,775,000	59	71,291,667	41	174,066,667	100
Overall	*307,909,052*	*73*	*113,024,390*	*27*	*420,933,442*	*100*

Table 5.34 presents the proportion of internal and external costs based on the length of operation. It shows that the internal costs dominate all groups of companies. The contribution of internal costs accounts for 57 per cent in companies operating between five to ten years; 59 per cent for the companies operating less than that; and 76 per cent for companies with more than ten years of operation.

Table 5.35: Composition of Internal and External Costs Based on Annual Turnover

Annual Turnover	Internal costs, IDR	%	External costs, IDR	%	Total	%
Less than IDR 3,000,000,000	85,908,927	64	47,333,333	36	133,242,260	100
IDR3 billion-IDR10 billion	136,223,590	80	33,543,522	20	169,767,112	100
IDR10 billion-IDR50 billion	196,413,409	79	53,312,500	21	249,725,909	100
IDR50 billion-IDR100 billion	306,213,550	64	168,973,611	36	475,187,161	*100*
More than IDR100 billion	469,523,701	73	170,886,963	27	640,410,664	100
Overall	*307,909,052*	*73*	*113,024,390*	*27*	*420,933,442*	*100*

Table 5.35 shows the proportion of internal and external costs based on annual turnover. It can be seen that as in the case with different length of operation, the internal costs dominate the compliance costs for all different groups of annual turnover. The contribution of internal costs ranges from 64 per cent for companies with annual turnover

of less than IDR3 billion and between IDR50 billion and IDR100 billion to 80 per cent for companies with annual turnover between IDR3 billion and IDR10 billion.

Overall, the internal costs contribute more than external costs in all groups of companies based on the sectors the companies operate (except for a slight difference in the construction sector), the length of operation of the companies, and the size of the companies.

5.5.3 Computational and Planning Costs

The respondents were asked to estimate what portion of each of their expenditures is spent on calculating their tax payable (computational purpose) or to better manage their tax liability (planning purpose).[11] The overall result shows that the proportion is 73 per cent for computational purposes and 27 per cent for planning purposes. The percentage of the costs based on sectors, the length of operation and annual turnover across sectors is presented in Tables 5.36 to 5.38.

Table 5.36: Proportion of Computational and Planning Costs Based on Sector

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

Table 5.36 shows that across all sectors the computational purposes dominate the costs for planning purposes. The computational purposes on average range from the lowest 55 per cent in the retail and wholesale trading sector to the highest, 93 per cent in the services sector. Conversely, the lowest planning purposes occur in the services sector with a

[11] Question number 2.4.

percentage of seven and the highest portion appears in the retail and wholesale trading sector at 45 per cent.

Analysed individually, payments to staff across sectors are mainly made for computational purposes with the average of 75 per cent, except in the retail and wholesale trading sector where these purposes are slightly less than the planning purpose at a percentage of 46 compared to 54. Expenditures for other costs (e.g. utilities, transportation and stationery) are mostly for computational purpose with the proportion of 81 per cent compared to 19 per cent for planning. Regarding the use of tax consultants, only three sectors, namely transportation, construction and real estate, hire them mostly for planning purposes with percentages of 60, 87 and 51, respectively. Other sectors hire tax consultants for computational purposes with proportions ranging from 64 per cent in the retail and wholesale trading sector to 96 per cent in the service sector.

Table 5.37: Proportion of Computational and Planning Costs Based on the Length of Operation

Length of operation	Computational costs, %				Planning costs, %			
	Staff	Others	Consul-tants	Average	Staff	Others	Consul-tants	Average
More than 10 years	74	78	77	76	26	22	23	24
5-10 years	51	70	85	69	49	30	15	31
1-5 years	20	20	62	34	80	80	38	66
Weighted Average	75	81	63	73	25	19	37	27

Table 5.37 shows the proportion of computational and planning costs based on the length of operation. It can be seen that the longer the companies operate, the more of their compliance expenditures are aimed at computational purposes. The data show that for companies with one to five years of operation, the computational purpose accounts for 34 per cent of the costs. This proportion increases to 69 per cent for the companies with five to ten years of operation and to 76 per cent for companies with more than ten years of operation.

Analysed further, for companies with one to five years of operation, the computational purpose is undertaken mainly by tax consultants, with 62 per cent of costs for hiring them aimed at computing the taxes, while expenditure for staff and other expenses are mainly for planning purposes with the proportion of 80 per cent. Meanwhile, for companies with more than five years of operation the expenditure for staff, others and consultants is mainly for computational purposes, with proportion of 51, 70 and 85 per cent for

companies with five to ten years of operation and 74, 78 and 77 for companies with more than ten years of operation, respectively.

Table 5.38: Proportion of Computational and Planning Costs Based on Annual Turnover

Annual Turnover	Computational costs, %				Planning costs, %			
	Staff	Others	Consul-tants	Average	Staff	Others	Consul-tants	Average
Less than IDR3 billion	28	26	88	47	72	74	12	53
IDR3 billion–IDR10 billion	53	65	55	58	47	35	45	42
IDR10 billion–IDR50 billion	65	70	70	68	35	30	30	32
IDR50 billion–IDR100 billion	75	83	83	80	25	17	17	20
More than IDR100 billion	70	80	85	78	30	20	15	22
Weighted Average	75	81	63	73	25	19	37	27

Table 5.38 presents the proportion of each expense in the costs based on annual turnover. It shows that when the companies grow, the compliance costs expenditure shifts from computational purpose to planning purpose, except for the largest group of companies when the proportion slightly decreases from the next largest group. It can be seen from Table 5.38 that, in average, the computational purpose rises from 47 per cent to 58, 68 and so forth to 78 per cent as the size of the company increases.

When analysed further, there is a similar trend in the expenditure for staff and other costs across different sizes of companies based on annual turnover. It can be seen from Table 5.38 that the proportion of computational purpose in the staff and other costs increase steadily from 28 and 26 per cent to 53, 65, and 75 per cent and 65, 70 and 83 per cent, respectively, and then slightly decreases to 70 and 80 per cent respectively. However, this tendency does not occur in the expenditure for tax consultants. Tax consultant costs for computational purposes in the smallest companies account for 88 per cent of the costs, and in the bigger companies they decrease to 55 per cent and then increase back to 70, 83 and 85 per cent as the size increases.

5.5.4 Compliance Costs by Size

The average compliance costs, based on company size measured in terms of the number of employees, the amount of annual turnover, and the amount of assets, are presented in Tables 5.39, 5.40 and 5.41 respectively. Compliance costs per group are calculated by dividing the average compliance costs by the mid-point unit of the size in each group, that is, the number of employees, the amount of annual turnover, and the amount of assets, respectively.

Table 5.39: Compliance Costs Based on the Number of Employees

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

Table 5.40: Compliance Costs Based on Annual Turnover

Annual Turnover	Average Compliance Costs, IDR	Compliance Costs per IDR of annual turnover
Less than IDR3 billion	168,470,943	0.112
IDR3 billion–IDR10 billion	193,615,370	0.030
IDR10 billion–IDR50 billion	250,174,464	0.008
IDR50 billion–IDR100 billion	464,515,251	0.006
More than IDR100 billion	631,478,239	0.004[a]

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

Table 5.41: Compliance Costs Based on Total Assets

Total Assets	Average Compliance Costs, IDR	Compliance Costs per IDR of Assets
Less than IDR3 billion	205,759,706	0.137
IDR3 billion–IDR10 billion	236,311,751	0.036
IDR10 billion–IDR50 billion	209,442,854	0.007
IDR50 billion–IDR100 billion	379,817,911	0.005
More than IDR100 billion	644,948,123	0.004[a]

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

Table 5.39 shows that the average compliance costs increases as the size of the companies in terms of the number of employees increases. It can be seen that the smallest companies with the number of employees less than 100 persons bear compliance costs of IDR279 million, which steadily increases to IDR311 million, IDR491 million, IDR614 million and IDR828 million as size grows. Conversely, the costs per one employee decrease from IDR5

million for the smallest companies to IDR1 million and less for the bigger companies. The same trend, where the costs per company increase as the size increases also occurs when the size is measured by annual turnover and total assets as shown in Tables 5.40 and 5.41, where the costs increase from IDR168 million to IDR631 million and from IDR205 million to IDR644 million, respectively. The only exception is that the costs for companies with total assets of IDR10–50 billion do not increase from the lower total assets group of IDR3–10 billion; instead, they decrease from IDR236 million to IDR209 million.

The trend that the compliance costs per employee decreases as the size grows also occurs when the size is measured by annual turnover and total assets, as shown in Table 5.40 and Table 5.41, respectively. As can be seen, the compliance costs per IDR of annual turnover steadily decreases from IDR0.112 to IDR0.004 from the smallest companies to the largest companies. Likewise, the costs per IDR total assets also steadily decrease from IDR0.137 to IDR0.004 from the smallest companies to the largest companies.

5.5.5 Compliance Costs by Size of Tax Payments

Overall, large taxpayers face three main groups of tax, namely income taxes, VAT and withholding taxes. The comparison between the average compliance costs and tax payments for each group is presented in Tables 5.42, 5.43, and 5.44.

Table 5.42: Compliance Costs Based on Income Tax Payments

Income Tax Payment Group	Compliance Costs, IDR	Compliance Costs per IDR Tax Payment
Less than IDR100 million	471,582,220	9.432
IDR100 million–IDR500 million	496,283,499	1.985
IDR500 million–IDR1 billion	388,932,421	0.519
IDR1 billion–IDR10 billion	315,981,754	0.057
IDR10 billion–IDR50 billion	703,360,467	0.023
More than IDR50 billion	382,206,088	0.005

Different from the case with the average costs based on the size of the companies, the average costs based on the amount of CIT payments do not increase as the amount of payment increases. As can be seen in Table 5.42, the average compliance costs for companies that pay CIT of less than IDR100 million (IDR471 million) is greater than those of companies with larger CIT payment, such as IDR388 million for companies paying CIT of between IDR500 million and IDR1 billion and DR315 million for companies paying CIT of between IDR1 billion and IDR10 billion. However, compliance costs per IDR CIT payment

shows the same trend as those measured by the size of companies; that is, the costs per IDR payment decrease as the amount of CIT payment increases.

Table 5.43: Compliance Costs Based on Value-Added Tax Payments

VAT Payment Group	Compliance Costs, IDR	Compliance Costs per IDR Tax Payment
Less than IDR100 million	246,639,488	4.933
IDR100 million–IDR500 million	368,385,516	1.474
IDR500 million–IDR1 billion	398,501,588	0.531
IDR1 billion–IDR10 billion	611,977,315	0.111
IDR10 billion-IDR50 billion	855,414,088	0.029

The compliance costs based on the payment of VAT, as shown in Table 5.43, is different from those based on the CIT payment. Table 5.43 shows that, based on VAT payments, the costs increases when the VAT payment increases. The average costs for the group with the smallest VAT payments of IDR246 million increase steadily to IDR368 million for the next group and so forth to IDR855 million in the group with the largest VAT payments. However, the same trend based on each IDR CIT payment also occurs in those of VAT payments as the group of companies with the smallest VAT payments incur the costs of IDR4.933 per IDR1 VAT payments and the next group with smaller costs of IDR1.474 and so forth to the companies with the greatest VAT payments with IDR0.029.

Table 5.44: Compliance Costs Based on Withholding Taxes Payment

Withholding Taxes Payment Group	Compliance Costs, IDR	Compliance Costs per IDR Tax Payment
Less than IDR100 million	205,627,348	4.113
IDR100 million-IDR500 million	378,845,925	1.515
IDR500 million-IDR1 billion	376,419,088	0.502
IDR1 billion-IDR10 billion	836,602,673	0.152
IDR10 billion-IDR50 billion	855,414,088	0.029

The same trend with VAT payments occurs when the compliance costs are measured based on the payment of WHT as shown in Table 5.44. Here, the compliance costs per company increases as the WHT payments increases, from IDR205 million to IDR855 million per company, except in the range of WHT payments between IDR500 million and IDR1 billion where they reduce slightly from the previous group of WHT payments. The regression of compliance costs measured by the amount of each IDR1 WHT payments is clearly shown in Table 5.44 with the costs decreasing steadily from IDR4.113 for the group with the lowest WHT payments to IDR0.029 for the group with the greatest payment of WHT.

5.5.6 Compliance Costs by Types of Tax

Respondents were asked how they allocate their compliance costs into three different types of tax, namely CIT, VAT and withholding taxes[12], with the results shown in Tables 5.45 to 5.47.

Table 5.45: Allocation of the Costs by Type of Tax Based on Sector

Sector	CIT, %	VAT, %	Withholding Taxes, %
Retail And Wholesale	23	46	32
Manufacturing	28	40	33
Services	51	28	37
Transportation, Warehouse	21	55	24
Construction	36	38	25
Real Estate, Rent	21	48	31
Mining, Extraction	20	41	39
Others	26	52	23
Weighted Average	*28*	*43*	*29*

Table 5.45 shows the allocation of the costs for each type of taxes based on the sectors in which the companies operate. It can be seen that, on average, VAT requires the most resources (43%) compared with the other types of tax (CIT 28% and withholding taxes 31%), except for those companies operating in the services sector where VAT only accounts for 28 per cent of total compliance costs. In this service sector, CIT accounts for the biggest source of the costs with a proportion of 51 per cent.

Table 5.46: Allocation of the Costs by Type of Tax Based on the Length of Operation

Length of Operation	CIT, %	VAT, %	Withholding Taxes, %
More than 10 years	32	42	29
5–10 years	15	48	38
1–5 years	10	59	31
Weighted Average	*28*	*43*	*29*

Table 5.46 depicts the allocation based on the length of operation. It can be seen that the longer the companies operate, the less proportion of the costs to deal with VAT. For example, companies with one to five years in operation spend 59 per cent of the compliance costs to manage their VAT, companies with five to ten years of operation

[12] Question number 2.3.

spend 48 per cent and lastly companies with more than ten years spend 42 per cent. From Table 5.46 it is also apparent that the resources are shifted to deal with CIT, as the proportion for CIT increases steadily with the increase in the length of operation, from 10 per cent of resources for companies with one to five years of operation to 15 per cent and 32 per cent for companies with five to ten years and more than ten years of operation, respectively. Meanwhile, the proportion of the costs to deal with withholding taxes is relatively stable, starting with 31 per cent for companies with one to five year of operation and increasing to 38 per cent for companies with five to ten years operational and then decreasing back to a level of 29 per cent for companies with more than ten years of operation.

Table 5.47: Allocation of the Costs by Type of Tax Based on Annual Turnover

Annual Turnover	CIT, %	VAT, %	Withholding Taxes, %
Less than IDR3 billion	14	10	76
IDR3 billion–IDR10 billion	29	71	19
IDR10 billion–IDR50 billion	23	46	31
IDR50 billion–IDR100 billion	15	50	35
More than IDR100 billion	29	37	35
Weighted Average	*28*	*43*	*29*

Table 5.47 portrays the allocation based on the size of the companies. It can be seen that based on the annual turnover, there is no clear pattern on how much is the proportion of the compliance costs to deal with each type of tax. For the smallest companies with less than IDR3 billion in annual turnover, 76 per cent of the compliance costs spending is assigned to withholding taxes, while 14 and ten per cent is for CIT and VAT respectively. For companies with the annual turnover of IDR3 billion to IDR 10 billion, the most resources (71%) are used to deal with VAT while 29 per cent and 19 per cent of spending are for CIT and WHT, respectively. Companies with higher annual turnover of IDR10 billion to IDR50 billion uses most resource for managing VAT at 46 per cent. This is similar to companies in the lower band of annual turnover, although with a smaller percentage. The difference is that the next bigger proportion for companies in the turnover group of IDR10–50 billion is for managing WHT, compared to CIT for companies with less annual turnover. Companies with annual turnover between IDR50 billion and IDR100 billion have the same trend as companies with IDR10–50 billion annual turnover but with different percentage. Lastly, companies with the largest annual turnover of more than IDR100 billion spend the

money somewhat proportionally among different type of taxes with 29 per cent, 37 per cent and 35 per cent for CIT, VAT and WHT respectively.

5.5.7 Reasons for Using Tax Consultants

Respondents were asked the reasons why in 2010 they used tax consultants, and 122 respondents provided answers (with multi responses possible), as presented in Table 5.48.

Table 5.48: Reasons for Using Tax Consultants

Reason(s)	Number of Responses	%
It is difficult to obtain explanations from tax office	20	12.35
The benefits of using tax consultants exceeds the costs	44	27.16
It is the policy from taxpayers' headquarters	85	52.47
Others	13	8.02
Overall	*162*	*100.00*

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

There are two noteworthy points that can be learned from Table 5.48. First, a significant number of the respondents are using tax consultants during the year, in this case as many as 122 out of 246 companies (just below 50%). Second, the reason using tax consultants for most cited by the respondents is that the use is the policy from the taxpayers' headquarters.

In order to investigate who hires the consultants and for what reasons, an analysis of the use based on the sector, the length of operation and annual turnover is undertaken, and the results are presented in Tables 5.49 to 5.51.

Table 5.49: Number of Taxpayers Using Tax Consultants Based on the Purpose

SECTOR	n	Day-to-day, n (%)	Preparing tax return, n (%)	Processing tax audit, n (%)	Processing tax objection, n (%)	Processing tax appeal, n (%)
Retail And Wholesale	77	58 (75)	56 (73)	41 (53)	20 (26)	10 (13)
Manufacturing	81	38 (47)	30 (37)	16 (20)	4 (5)	3 (4)
Services	19	5 (26)	8 (42)	5 (26)	0 (0)	0 (0)
Transportation, Warehouse	13	2 (15)	2 (15)	2 (15)	0 (0)	0 (0)
Construction	13	1 (8)	2 (15)	2 (15)	2 (15)	1 (8)
Real Estate, Rent	6	3 (50)	1 (17)	1 (17)	0 (0)	0 (0)
Mining, Extraction	8	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Others	29	14 (48)	7 (24)	7(24)	0 (0)	0 (0)
Overall	246	121 (49)	106 (43)	74 (30)	*26 (11)*	*14(6)*

Table 5.49 shows the number of taxpayers hiring tax consultants and the purposes of hiring them based on the sectors. It can be seen that overall, almost half of the respondents, namely 121 of 246 (49%), hire tax consultants for their day-to-day tax management, with the percentage declining consistently for each process of tax management with 106 companies (43%) companies hiring them for preparing tax returns, 74 companies (30%) for managing tax audits, and 26 companies (11%) and 14 companies (6%) for handling tax objections and appeals respectively.

The greatest proportion of companies using tax consultants for day-to-day operation occurs in the retail and wholesale trading sector with 58 of 77 companies (75%), followed by the real estate and rent sector with three of six companies (50%, although this small number of respondents has to be treated cautiously), followed closely by the "other" sector with 14 of 29 companies (48%).

Regarding the use of tax consultants, overall as many as 106 of 246 respondents (24%) hire them to prepare their tax returns. The highest percentage of taxpayers using tax consultants to prepare tax returns based on the sector is the retail and wholesale trading sector with 56 of 77 respondents (73%), followed by the service sector with eight of 19 companies (42%) and the manufacturing sector with 30 of 81 respondents (37%).

The same trend in which the retail and wholesale trading sector uses tax consultants more than other sectors for managing day-to-day tax affairs and preparing tax returns also occurs for the other three purposes, namely facing tax audits, proposing tax objections and proposing tax appeals, with proportion of 53, 26 and 13 per cent or 41, 20 and 10 of 77

respondents, respectively. The percentage in tax audit is followed by the service sector with five of 19 companies (26%) and the manufacturing sector with 16 of 81 companies (20%). The other sectors for these purposes only have insignificant representation.

Overall, because the retail and wholesale trading sector is the sector in which the company uses tax consultants for all types of purposes more so than any other sector, it could be argued that this is the reason why this sector bears the largest compliance costs compared to other sectors as discussed before.

Table 5.50: Number of Taxpayers Using Tax Consultants Based on the Length of Operation

Length of operation	n	Day-to-day, n (%)	Preparing tax return, n (%)	Processing tax audit, n (%)	Processing tax objection, n (%)	Processing tax appeal, n (%)
More than 10 years	184	72 (39)	59 (32)	48 (26)	18 (10)	14 (8)
5–10 years	50	38 (76)	36 (72)	26 (52)	8 (16)	0 (0)
1–5 years	12	11 (92)	11 (92)	0 (0)	0 (0)	0 (0)
Overall	246	121 (49)	106 (43)	*74(30)*	*26 (11)*	*14(6)*

Table 5.50 shows the number of taxpayers hiring tax consultants and the purposes of hiring them based on the length of operation of the companies. From this table, overall it can be seen that based on the length of operation, the companies with the least years of operation hire the most (11 of 12 companies, or 92%). The percentage declines as the companies operate longer, as shown by the declining percentage to 76 per cent for companies with 5–10 ten years of operation (38 of 50 companies) and 39 per cent for companies with more than ten years of operation (39 of 184 companies).

The same trend also occurs on the use of tax consultants for the purpose of preparing tax returns. The highest percentage of this use occurs in companies with one to five years of operation (11 of 12 companies, or 92%). This is also followed by companies with longer operation of five to ten years (36 of 50 companies, or 72%) and more than ten years (59 of 184 companies, or 32%).

Table 5.51: Number of Taxpayers Using Tax Consultants Based on Annual Turnover

Annual Turnover	n	Day-to-day, n (%)	Preparing tax return, n (%)	Processing tax audit, n (%)	Processing tax objection, n (%)	Processing tax appeal, n (%)
Less than IDR3 billion	6	5 (83)	2 (33)	1 (17)	0 (0)	0 (0)
IDR3 billion–IDR10 billion	39	18 (46)	18 (46)	8 (21)	8 (21)	0 (0)
IDR10 billion–IDR50 billion	68	29 (43)	29 (43)	19 (28)	0 (0)	0 (0)
IDR50 billion–IDR100 billion	36	14 (39)	13 (36)	11 (31)	7 (19)	6 (17)
More than IDR100 billion	97	55 (57)	44 (45)	35 (36)	11 (11)	8 (8)
Overall	246	121 (49)	106 (43)	74 (30)	*26(11)*	*14(6)*

Table 5.51 presents what size of companies hire tax consultants and for what reasons. It can be seen that the most companies hiring tax consultants are the largest companies having annual turnover of more than IDR100 billion with 55 of 121 companies (45%), followed by the companies with annual turnover between IDR10 billion and IDR50 billion with 29 companies (24%). For small companies with annual turnover of less than IDR3 billion, they hire tax consultants mainly for their day-to-day operation (five of six companies). For other groups of companies based on annual turnover, the numbers of companies who hire consultants for their daily activities and for preparing tax returns are almost the same. For example, the numbers of companies in the annual turnover group of IDR3–10 billion (18 companies) and in the annual turnover group of IDR10–50 billion (19 companies) who hire tax consultants for their day-to-day operation are the same as those for preparing tax returns, respectively. While in the groups with larger annual turnover the numbers are 14 and 13 companies and 55 and 44 companies, respectively. In every group, the number of companies who hire tax consultants for processing tax audits, objections, and appeals is less than that for preparing tax returns.

5.6 Costs of Tax Audits, Objection and Appeal

Respondents are asked about non-routine costs namely the costs to deal with a tax audit, tax objection or tax appeal. The costs for each occurrence are presented in Table 5.52.

Table 5.52: Costs of Non-Routine Activities

Non-Routine Activities	n	Staff		Others		Consultants		Total
		Average costs, IDR	%	Average costs, IDR	%	Average costs, IDR	%	Average costs, IDR
Audits	95	5,562,632	5	1,823,263	2	105,247,895	93	112,633,790
Objections	36	12,673,611	17	4,140,278	6	57,215,278	77	74,029,167
Appeals	14	11,862,500	12	2,173,214	2	86,482,143	86	100,517,857

From Table 5.52 it can be seen that among non-routine activities, the largest costs are incurred when the companies are audited (IDR112 million), followed by tax appeals (IDR100 million), and the lowest is for tax objections (IDR74 million). It is also evident that when conducting non-routine activities, companies rely on tax consultants that contribute 93 per cent, 77 per cent and 86 per cent of the costs in tax audits, tax objections, and tax appeals, respectively. Regarding the fees for tax consultants, the most expensive is the costs for dealing with tax audits (IDR105 million), followed by appeals (IDR86 million) and objections (IDR57 million).

In order to investigate what type of taxpayers are audited, proposing tax objections or proposing tax appeals, a detailed profile is needed, and is presented in Tables 5.53 to 5.55.

Table 5.53: Non-routine Activities Based on Sector

Sectors	n	Audited		Objection		Appeal*	
		Yes	No	Yes	No	Yes	No
Retail And Wholesale	77	46	31	23	54	10	66
Manufacturing	81	29	52	7	74	3	77
Services	19	8	11	3	16	0	19
Transportation, Warehouse	13	2	11	0	13	0	13
Construction	13	2	11	2	11	1	12
Real Estate, Rent	6	1	5	0	6	0	6
Mining, Extraction	8	0	8	0	8	0	8
Others	29	7	22	1	28	0	29
Overall	*246*	*95*	*151*	*36*	*210*	*14*	*230*

Note: *Two respondents did not respond to the question on whether they are proposing a tax appeal, therefore the summation of the "yes" and "no" answers (14 and 230, total 244) does not equal to the total number of respondents (246).

Table 5.53 shows the profile of companies undertaking non-routine activities based on the sector. From this it can be seen that the most audited sector is retail and wholesale trading, with data showing that as many as 46 companies of 77 (60%) are audited, followed by the service sector (8 of 19 companies, or 42%) and the manufacturing sector (29 of 81 companies, or 36%).

Likewise, the sector with the most companies proposing a tax objection is the retail and wholesale trading sector, with 23 of 77 companies (30%) proposing tax objections,

followed by the service sector (three of 19 companies, or 16%) and the construction sector (two of 13 companies, or 15%). Moreover, the sector with most companies proposing tax appeals is also the retail and wholesale trading sector with ten of 77 companies (13%), followed by the construction sector (one of 13 companies, or eight per cent) and the manufacturing sector (three of 81 companies, or four per cent).

The finding that the retail and wholesale trading sector is the sector whose companies are audited, propose tax objection and tax appeal most frequently compared to other sectors might also explain why this sector bears the most compliance costs compared with the others, as discussed above.

Table 5.54: Non-routine Activities Based on Based on the Length of Operation

Length of operation	Overall	Audited		Objection		Appeal*	
		Yes	No	Yes	No	Yes	No
More than 10 years	184	69	115	28	156	14	168
5–10 years	50	26	24	8	42	0	50
1–5 years	12	0	12	0	12	0	12
Overall	*246*	*95*	*151*	*36*	*210*	*14*	*230*

Note: *Two respondents did not respond the question on whether they are proposing tax appeal, hence the summation of the "yes" and "no"' answers (14 and 230, total 244) does not equal to the total number respondents (246).

Table 5.54 presents the same profile, but based on the length of operation. From this it can be seen that the length of operation in which the companies are most audited and proposing tax objections is between 5 and 10 years, with 26 of 50 companies (52%), followed by the group with more than 10 years of operation, with 69 of 184 companies (38%). Regarding tax objections, eight of 50 companies (16%) companies with five to ten years of operation are audited, slightly more than companies with more than ten years of operation with 28 of 184 companies (15%). Meanwhile, the only length of operation group in which the companies are proposing tax appeals is the group with more than ten years of operation, with 14 of 184 companies (eight per cent). A comparison could not be presented because no other groups are proposing appeals.

Previously, in discussion on the relationship between the length of operation with the compliance costs, it is noted that overall, the length of operation of the companies does not significantly affect the compliance costs when the companies in the same range of annual turnover are examined. Considering that (a) the group with the companies most frequently audited and proposing tax objections is the group with five to ten years of operation; and (b) the group with the companies most frequently proposing tax appeals is the group with more than ten years of operation, it could be inferred that indifference in

the compliance costs in relation to the length of operation is probably caused by the occurrence of tax audits, objections and appeals (all are sources of compliance costs), that is not dominated by a single group of companies based on the length of operation.

Table 5.55: Non-routine Activities Based on Annual Turnover

Annual Turnover	Overall	Audited		Objection		Appeal*	
		Yes	No	Yes	No	Yes	No
Less than IDR3 billion	6	1	5	0	6	0	6
IDR3 billion–IDR10 billion	39	8	31	8	31	0	39
IDR10 billion–IDR50 billion	68	29	39	0	68	0	68
IDR50 billion–IDR100 billion	36	13	23	9	27	6	29
More than IDR100 billion	97	44	53	19	78	8	88
Overall	*246*	*95*	*151*	*36*	*210*	*14*	*230*

Note: *Two respondents did not respond the question on whether they are proposing tax appeal, hence the summation of the "yes" and "no"' answers (14 and 230, total 244) does not equal to the total number respondents (246).

Table 5.55 depicts the profile of companies undertaking non-routine activities based on annual turnover. From this it can be seen that the group of companies based on annual turnover with the most audited companies is the group with annual turnovers of more than IDR100 billion with 44 of 97 companies (45%). It is followed by the companies with annual turnovers between IDR10 and 50 billion with 29 of 68 companies (43%). Meanwhile, the group with the most frequent proposals for tax objections is the group of companies with annual turnovers between IDR50 and IDR100 billion with nine of 36 companies (25%), followed by companies with annual turnovers between IDR3 and IDR10 billion with eight of 39 companies (21%). Lastly, the group with the most proposed tax appeals is that of annual turnovers between UDR50 and IDR100 billion with six of 36 companies (17%), followed by the only other group proposing tax appeals, namely the group with annual turnovers of more than IDR100 billion, with eight of 97 companies (eight per cent).

Previously, in the discussion on the relationship between the size of the companies based on annual turnover and the compliance costs, it is noted that the greater the annual turnover, the greater the compliance costs. Among the costs of these non-routine activities, tax audits bear the most costs of IDR112 million compared to tax objections of IDR74 million and tax appeal of IDR100 million. Considering that the group with the most frequent tax audit is the group with the greatest annual turnover, it might explain as well, that this group bears the greatest compliance costs.

5.7 Gross Compliance Costs

To obtain (national) gross compliance costs, the mean compliance costs for each sector are multiplied by the number of companies in each sector in the population. The computation of gross compliance costs is presented in Table 5.56. A relative comparison of gross compliance costs with Indonesian tax revenue and Gross Domestic Product (GDP) is presented in Table 5.57.

Table 5.56: Gross Large Taxpayers' Compliance Costs

Sector	Compliance Costs, IDR	Population	Gross Compliance Costs, IDR million
(1)	(2)	(3)	(4)=(2)*(3)
Retail and wholesale trading	506,022,878	11,130	5,632,034
Manufacturing	488,861,830	6,545	3,199,600
Service	249,647,368	1,367	341,267
Transportation, warehouse, communication	230,055,600	1,470	338,181
Construction	307,434,370	1,486	456,847
Real estate, rent	305,508,820	1,941	592,992
Mining, extraction	51,375,000	247	12,689
Others	379,770,152	4,495	1,707,066
Overall	*420,933,442*	*28,681*	*12,280,681*

Source: Directorate General of Taxes (2012 unpublished)

Table 5.57: Comparison of Gross Compliance Costs, Tax Revenue, and Gross Domestic Product

Item	Amount
Gross Compliance Costs of Large Taxpayers, IDR trillion*	12,280
National Tax Revenue from Large Taxpayers, IDR trillion	388
GDP in 2010, IDR trillion	6,422
Gross Compliance Costs as Percentage of Tax Revenue	*3.16*
Gross Compliance Costs as Percentage of GDP	*0.19*

Sources: Biro Pusat Statistik and Directorate General of Taxes 2012. Note:* From Table 5.56

From Table 5.56, it can be seen that the national gross compliance costs of large companies in Indonesia in 2010 is IDR12.28 trillion, the equivalent of 3.16 per cent of tax revenue from large companies and 0.19 per cent of GDP as shown in table 5.57.

5.7.1 Cash Flow Benefits

Cash flow benefits arise where there is a delay between the payable or collection date and the due date. During that time interval, taxpayers enjoy risk-free funds before the funds are paid to the government. The amount of cash flow benefits is obtained by multiplying

the revenue of each type of tax with an appropriate interest rate (reflecting the cost of borrowing) and the duration of this interest-free period[13].

According to current Indonesian tax laws, there are sixteen different types of taxes related to large taxpayers with different due dates. They consist of a CIT, six types of tax on consumption, six types of withholding taxes, two stamp duties taxes, and one category under 'Other Indirect Taxes'. Taxes on consumption include Domestic VAT, International VAT, Other VAT, Domestic Tax on Sales of Luxurious Goods, International Tax on Sales of Luxurious Goods, and Other Tax on Sales of Luxurious Goods. Withholding taxes consist of Income Tax Article 21, Article 22, Article 22 Import, Article 23, Article 26, and Income Tax Final. The types, national revenue and due date of each type of tax is presented in Table 5.58.

The current tax laws stipulate that all types of tax (as in Table 5.58) have to be paid and reported each tax period, that is, each month with the exception of taxes that have to be paid on the same day or the following day, namely International VAT (number 3 in Table 5.58), International Tax on Luxurious Goods (number 6), Income Tax Article 22 (number 9), and Income Tax Article 22 Import (number 10), Stamp Duties (number 14), Sales of Stamp Duties (number 15), and Other Indirect Taxes (number 16). It means that the actual interest-free period enjoyed by a taxpayer could be longer than the periods stated in Table 5.58 because the above interest-free periods are counted from the end of the transaction period (month) to the date the tax should be paid, instead of from the date the transaction takes place (when the tax is theoretically payable), which could range from the beginning of the month until the last day of the month.

In order to accurately calculate the interest-free period for each tax, the actual transaction dates should be known, which is almost impossible to do. Considering that business transactions take place in any day during the month, for the sake of simplicity all transactions that lead to tax obligations are assumed to take place at the middle of the month. Consequently, fifteen days are added to the interest-free periods mentioned in Table 5.58 in the cash flow benefits calculation.

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[13]As a formula, the national cash flow benefits can be written as:

CFB = $\sum_{i=m}^{n} TRi * \left(\frac{Pi}{365}\right) * Ii$

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

Table 5.58: Type of Taxes, National Revenue, and Due Date of Each Type of Tax

No	Type of Tax	National Large Taxpayers Tax Revenue, IDR million	Due Date
1	Corporate Income Tax (Article 25 and Article 29)	97,996,240	15th day of the following month, the end of the fourth month the following year
2	Domestic VAT	102,210,318	The end of the following month
3	International VAT	74,210,344	Same day
4	Other VAT	119,197	The end of the following month
5	Domestic Tax on Sales of Luxurious Goods	8,175,114	The end of the following month
6	International Tax on Sales of Luxurious Goods	3,751,155	Same day
7	Other Tax on Sales of Luxurious Goods	3,743	The end of the following month
8	Income Tax Article 21	24,506,109	10th day of the following month
9	Income Tax Article 22	1,616,086	The following day
10	Income Tax Article 22 Import	20,964,933	Same day
11	Income Tax Article 23	9,713,508	10th day of the following month
12	Income Tax Article 26	18,917,523	10th day of the following month
13	Income Tax Final	23,943,371	10th day of the following month
14	Stamp Duties	66,267	Same day
15	Sales of Stamp Duties	1,075,986	Same day
16	Other Indirect Taxes	44	Same day
	Overall	*388,070,243*	

Source: Directorate General of Taxes (2011)

The interest rate used in the calculation is the interest rate for working capital loans by banks to corporations. The reason behind this selection of interest rate is that the interest-free money held by taxpayers before it is paid to the government is similar to additional working capital otherwise obtained in the form of bank loans. The rate used is the unweighted average rate of working capital loans from state banks, regional government banks, private national banks, foreign banks and joint banks, and commercial banks, whose data are obtained from the Indonesian central bank (Bank Indonesia, 2012). The interest rates in 2010 for working capital loans for each kind of bank are presented in Table 5.59.

Table 5.59: Annual Interest Rates on Working Capital Loans, 2010

Type of Banks	Average Annual Interest Rate, %
State Banks	13.40
Regional Government Banks	13.70
Private National Banks	13.52
Foreign And Joint Banks	9.51
Commercial Banks	13.22
Average	*12.67*

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

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

5.7.2 Tax Deductibility Benefits

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

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

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

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

5.8 Net Compliance Costs

Based on the above analysis, the net compliance costs, which are the gross compliance costs minus the cash flow benefits and the tax deductibility benefits, are estimated at IDR 7.3 trillion, and around 1.63 per cent of tax revenue and 0.10 per cent of Gross Domestic Product, as presented in Table 5.60.

Table 5.60: Net Compliance Costs in Monetary terms, and as a Percentage of Tax Revenue and Gross Domestic Product

Items	Amount
Gross Compliance Costs of Large Taxpayers, IDR trillion	12.280
Cash Flow Benefits, IDR trillion	2.898
Tax Deductibility Benefits, IDR trillion	3.046
Net Compliance Costs, IDR trillion	6.335
National Tax Revenue from Large Taxpayers, IDR trillion	388
GDP in 2010, IDR trillion	6,422
Net Compliance Costs as Percentage of Tax Revenue	*1.63*
Net Compliance Costs as Percentage of GDP	*0.10*

Source: Biro Pusat Statistik (2012), Directorate General of Taxes (2012).

5.9 Summary

This chapter discusses the quantitative results of the research on the compliance costs of large corporate taxpayers in Indonesia. The results suggest that on average a large corporate taxpayer incurs compliance costs of IDR420 million (or AUD38,621 at the December 2013 exchange rate) in one year. The costs differ between sectors, with the retail and wholesale trading sector incurring the largest costs compared to the others. There is little indication that the length of operation of the companies influences the magnitude of the costs. The compliance costs increase as the size of company grows.

Nationally, the gross compliance costs of large companies in Indonesia account for IDR12.280 trillion or 3.16 per cent of tax revenue from large companies and 0.19 per cent of GDP. After compensating cash flow benefits of IDR2.898 trillion and tax deductibility benefits of IDR3.046 trillion, the net compliance costs account for IDR6.335 trillion, or 1.63 per cent of tax revenue and 0.10 per cent of GDP.

The compliance costs are regressive in terms of company size. As companies grow in terms of the number of employees, total assets, and annual turnover, the compliance costs per unit of measurement (per employee, IDR total asset, or IDR annual turnover) decrease; showing economies of size. The same also applies if the compliance costs are measured by each IDR paid for income tax, Value-added Tax, and a number of withholding taxes.

Regarding the components of the costs, the research shows that salaries for staff contribute the greatest (48%), followed by the value of time spent by the management to oversee the fulfilment of the tax obligations (17%), and costs related to tax audits (10%). This ranking of the components varies slightly between sectors, between companies grouped based on the length of operation and between companies with different annual turnover. The companies that have operated longer or have more revenue rely less on tax consultants than those with shorter period of operation or smaller annual turnover.

When the costs are grouped into internal and external costs, it is suggested that the internal costs contribute more than external costs with a ratio of 73 to 27 per cent. Tax consultants are hired mostly to manage tax audits, followed by daily tax undertakings, tax returns, tax objections, and tax appeals. The composition of internal and external costs applies for all sectors in the economy (with the only exception in the construction sector) and all companies grouped by length of operation and by size.

Regarding the purpose of the compliance costs expenditure, overall computational purposes dominate the costs with a contribution of 73 per cent compared to 27 per cent for planning purpose. This proportion applies for all the sectors in the economy, but not for all companies group by length of operation, because companies with a shorter time of operation spend only 34 per cent of the costs to compute tax payable compared to 66 per cent to spend on planning. Likewise, the proportion of the costs for computational and planning purpose based on the size of companies follow this pattern with computational purposes dominating, except for the smallest companies where the planning purposes contribute more.

The compliance costs expenditure is aimed at managing three different types of tax and overall, the highest percentage occurs in handling VAT (43%), followed by income withholding taxes (29%) and income tax (28%). This composition varies between sectors, between companies in different grouped by length of operation and annual turnover.

Almost half (49%) of the large companies participating in the survey hire tax consultants to help them fulfil their tax obligations. There are a number of reasons why they hire them, the most cited reason being following their head office's policy. Other reasons include the difficulties of obtaining tax clarification from the tax administration and the benefit that exceeds the costs. The tax consultants are mostly hired by the retail sector, the companies with more than ten years of operation, and the companies with the highest annual turnover group.

When companies undertake non-routine activities, such as tax audits, tax objections, and tax appeals, they rely more on tax consultants (86%) than their own staff (12%); the other costs contribute two per cent. In most cases, tax audits, objections and tax appeals are experienced by the companies in the retail and wholesale trading sector, companies with the longest years of operation, and companies in the highest annual turnover category.

Chapter 6. The Attitudes towards the Tax Administration

6.1 Introduction

After the discussion on the quantitative results of the research in the previous chapter, this chapter examines the qualitative findings of the research based on the survey, in-depth interviews and focus group discussion. The survey covers two main topics, namely the attitudes of large taxpayers towards the Indonesian tax administration reform and the effects of this reform on the compliance costs. Meanwhile, the interviews and focus group discussion attempt to obtain greater understanding of those same subjects as well as the features and the components of the compliance costs.

The chapter is arranged as follows. After this introduction, the attitudes are discussed in Section 6.2 with the analysis based on the pertinent factors of the respondents, namely the sector in which the companies are operating, the length of operation of the companies and the size of the companies in terms of their annual turnover. Besides these factors, the relationship between specific occurrence and the statements being asked is also investigated. For example, when a statement on tax audit is asked, the analysis also covers the different attitudes between companies that are audited and the ones that are not. In this part, if the vast majority of the respondents agree on certain statements, further analysis is not pursued because there is no significant difference among respondents.

Section 6.3 examines whether the tax administration reform reduces, increases, or does not affect the compliance costs of large taxpayers. It also further analyses what type of taxpayers are benefitting from the reform in terms of the reduction of the costs, what types of those are experiencing an increase, as well as those who are not affected by the reform. Section 6.4 discusses the results of the interviews and focus group discussion with taxpayers and tax consultants on an array of topics, including the compliance costs and their components and features, as well as the advantages and disadvantages of the tax administration reform. Section 6.5 then summarises the discussion.

6.2 The Attitudes of Large Companies towards the Tax Administration

6.2.1 Statements on the Attitudes

While the first part of the survey investigates the magnitude of the compliance costs, this second part of the survey covers the questions on the attitudes of large companies towards the tax administration after the reform compared to before. The Likert scale is used in this part with five options to choose, namely “strongly agree”, “agree”, “neutral”, “disagree”, and “strongly disagree”. The statements are grouped into four. The first group consists of five statements regarding the attitudes on the tax administration in general. The second group comprises five statements on the attitudes of the taxpayers to their respective tax offices where the companies register and report their tax obligations. The third group comprises four statements investigating the respondents’ attitude to the AR through whom the companies interact with the tax administration. The last group, consisting of three statements, assesses whether the new system with the ARs reduce, raise or does not affect compliance costs. The statements on each group are presented in Tables 6.1 to 6.4.

Table 6.1: Statements on the Overall tax Administration

Statement number	Statement
1	In general, tax administration is now better
2	Information/computer system in the tax office makes it easier to comply with tax regulation
3	It is now easier to obtain tax ruling clarification
4	Tax objection/appeal procedure is now easier
5	Tax laws/regulations are now simpler

Table 6.2: Statements on the Current Tax Office

Statement number	Statement
6	Tax return submission is now simpler
7	Tax officers are now more competent
8	Service in Tax Office is now better
9	Audit process is now simpler
10	I am satisfied with the service provided by current tax office

Table 6.3: Statements on the Account Representatives

Statement number	Statement
11	AR are helpful
12	AR are knowledgeable on tax laws/regulations
13	The existence of AR can ease the pressure on my company
17	For my company, the AR are not needed

Table 6.4: Statements on the Compliance Costs

Statement number	Statement
14	The new system with the AR reduces the compliance costs
15	The new system with the AR increases the compliance costs
16	The new system with the AR does not affect the compliance costs

6.2.2 Attitudes towards the Overall Tax Administration

Statement 1 enquires whether the overall current tax administration is now better compared to what it was before the reform, and the vast majority of respondents agree with this, as presented in Table 6.5.

Table 6.5: Response to the Statement whether the Tax Administration is Now Better

Response	n	%
Strongly agree	51	21
Agree	190	78
Neutral	5	2
Overall	*246*	*100*

Note: No respondent chooses “disagree” or “strongly disagree” for this statement

As can be seen from Table 6.5, the majority of respondents (190 companies, or 78%) agree, and an additional 51 companies (21%) strongly agree with this statement for a combined 98 per cent agreeing response, with only 5 respondents (two per cent) stating that they have no opinion on this. No respondents express their disagreement on this statement.

When faced with whether the improvement in information and computer technology in the tax administration makes it easier for large companies to comply with the tax laws, a vast majority of respondents (albeit smaller than in Statement 1) agree, as presented in Table 6.6.

Table 6.6: Response to Statement whether the Information Technology makes it Easier to Comply

Response	n	%
Strongly agree	41	17
Agree	181	74
Neutral	23	9
Disagree	1	<1
Overall	*246*	*100*

Note: No respondent chooses "strongly disagree" for this statement.

As can be seen in Table 6.6, 181 companies (74%) of respondents agree with the statement, and an additional 41 companies (17%) strongly agree with it, making it 91 per cent in total.

Different from the statements on both the overall tax administration and information and computer technology that result in similar responses, Statement 3 on the easiness of taxpayers to obtain tax ruling clarifications finds more balanced results, as presented in Table 6.7.

Table 6.7: Response to Statement Whether It Is Easier to Obtain Clarification

Response	n	%
Strongly agree	38	15
Agree	99	40
Neutral	97	39
Disagree	12	5
Overall	*246*	*100*

Note: No respondent chooses "strongly disagree" for this statement

From Table 6.7, it can be seen that 99 companies (40%) and 38 companies (15%) of respondents agree and strongly agree respectively with the statement, making it a total of a 55 per cent agreeing response. However, as many as 97 companies (39%) of respondents neither agree nor disagree with it. There are 12 companies (5%) of respondents who disagree with the statement.

In order to investigate the profile of the companies responding to this statement, a breakdown of the respondents is presented in Tables 6.8, 6.9 and 6.10. For the reason of simplicity, the response of "agree" and "strongly agree" are combined into one term "agree" while "disagree" and "strongly disagree" are united into a "disagree" response.

Table 6.8: Response to Statement Whether It Is Easier to Obtain Clarification Based on the Sector

Sector	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Retail and wholesale trading	51	66	22	29	4	5	77
Manufacturing	52	64	28	35	1	1	81
Service	6	32	13	68	0	0	19
Transportation, warehouse, communication	6	46	4	31	3	23	13
Construction	8	62	5	38	0	0	13
Reals estate, rental	3	50	1	17	2	33	6
Mining, extraction	4	50	4	50	0	0	8
Others	7	24	20	69	2	7	29
Overall	*137*	*56*	*97*	*39*	*12*	*5*	*246*

From Table 6.8 it can be seen that the agreement for Statement 3 ranges from the lowest 24 per cent in “other” sector to the highest 66 per cent in the retail and wholesale trading sector. Meanwhile, disagreement for this statement comes from five of the eight sectors, with each sector represented by less than five respondents, and it is deemed insignificant. The sector with the greatest percentage of neutral response is the “other” sector with 20 of 29 companies (69%), followed by the service sector with 13 of 19 companies (68%).

Table 6.9: Response to Statement Whether It Is Easier to Obtain Clarification Based on the Length of Operation

Length of Operation	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
More than 10 years	77	42	95	52	12	7	184
5–10 years	49	98	1	2	0	0	50
1–5 years	11	92	1	8	0	0	12
Overall	*137*	*56*	*97*	*39*	*12*	*5*	*246*

From Table 6.9 it can be seen that the neutral response is mainly voiced by the companies with more than 10 years of operation (95 of 184 companies, or 52%) and they account for 98 per cent (95 of 97 companies) of overall neutral response. In addition, all of the 12 companies who disagree with the statement whether it is easier to obtain clarification also originate from this group.

Table 6.10: Response to Statement Whether It Is Easier to Obtain Clarification Based on Annual Turnover

Annual turnover	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Less than IDR3 billion	3	50	2	33	1	17	6
IDR3–10 billion	19	49	10	26	10	26	39
IDR10–50 billion	30	44	38	56	0	0	68
IDR50–100 billion	23	64	13	36	0	0	36
More than IDR100 billion	62	64	34	35	1	1	97
Overall	*137*	*56*	*97*	*39*	*12*	*5*	*246*

Two inferences could be drawn from Table 6.10. First, the neutral answer comes from all ranges of annual turnover with the percentage ranging from 26 per cent of respondents in the IDR3 billion–10 billion group and 56 per cent in the IDR10 billion-50 billion group. Second, the disagreement response mainly comes from the group of IDR3 billion–0 billion annual turnover with 10 of 39 companies (26%).

There are two sources from which taxpayers could obtain tax ruling explanations, namely the tax administration and tax consultants; therefore, it is important to discover whether companies who hire tax consultants for their routine activities voice different opinions on this statement. The findings are presented in Table 6.11.

Table 6.11: Response to Statement Whether It Is Easier to Obtain Clarification Based on the Use of Tax Consultants

Type of companies	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Using tax consultant	108	89	2	2	11	9	121
Not using tax consultants	29	23	95	76	1	1	125
Overall	*137*	*56*	*97*	*39*	*12*	*5*	*246*

It can be noted from Table 6.11 that, perhaps surprisingly, among taxpayers who hire tax consultants, a majority or 89 per cent agree that tax ruling clarification from the tax administration is now easier to obtain with only 11 per cent stating otherwise. The neutral answer is dominated by the companies who do not hire tax consultants for their routine activities (95 of 97 companies, or 98%).

Statement 4 on whether the procedure for tax objections or appeals is easier produces more neutral responses than the other responses at 63 per cent compared to 37 per cent respectively, as presented in Table 6.12.

Table 6.12: Response to Statement Whether It is Easier to Propose Tax Objection or Appeal

Response	n	%
Strongly agree	16	7
Agree	56	25
Neutral	142	63
Disagree	11	5
Overall	*225*	*100*

Note: No respondent chooses "strongly disagree" for this statement. As many as 21 respondents did not answer this question.

The origin of the agreeing response spreads all over different sectors, ranging from the lowest 15 per cent in the retail and wholesale trading sector to the highest 62 per cent in the construction sector as can be seen in Table 6.13. The disagreement comes from five of the eight sectors, but because the representation from each is sector is small (less than three companies), this might not lead to any meaningful inferences.

Table 6.13: Response to Statement Whether It is Easier to Propose Tax Objections or Appeals Based on the Sector

Sector	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Retail and wholesale trading	11	15	60	81	3	4	74
Manufacturing	28	41	40	58	1	1	69
Service	9	47	10	53	0	0	19
Transportation, warehouse, communication	4	31	6	46	3	23	13
Construction	8	62	5	38	0	0	13
Reals estate, rental	2	40	1	20	2	40	5
Mining, extraction	4	50	4	50	0	0	8
Others	6	25	12	50	2	8	24
Overall	*72*	*32*	*142*	*63*	*11*	*5*	*225*

This statement relates to tax objections and appeals, therefore, the attitude of the companies who are proposing tax objections and appeals toward this statement is analysed, and the results are presented in Table 6.14.

Table 6.14: Response to Statement Whether It is Easier to Propose Tax Objections or Appeals Based on the Tax Objection and Appeal Cases

Type of companies	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Proposing objection	0	0	27	75	9	25	36
Proposing appeal	4	29	10	71	0	0	14
Not proposing objection or appeal	68	39	105	60	2	1	175
Overall	*72*	*32*	*142*	*63*	*11*	*5*	*225*

It can be seen from Table 6.14 that the majority of agreeing responses (68 of 72 companies, or 94%) come from the companies who do not propose tax objections or tax appeals. It can be noted here that of eleven companies who do not agree with the statement, nine are companies who propose tax objection.

In order to investigate whether there is any relationship between the use of tax consultants and the response to this statement, further analysis is conducted and the result is presented in Table 6.15.

Table 6.15: Response to Statement Whether It is Easier to Propose Tax Objection or Appeals Based on the Use of Tax Consultants

Type of companies	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Using tax consultant	39	39	60	60	1	1	100*
Not using tax consultants	27	26	68	65	9	9	104
Overall	*66*	*32*	*128*	*63*	*10*	*7*	*204*

*Note: 21 of 121 companies hiring tax consultants did not respond to this question.

From Table 6.15 it can be seen that there is little indication of the relationship between the use of tax consultants with the attitude on the ease of proposing tax objections or appeals, shown by the proportion of those three responses that do not vary significantly (i.e. 39% compared to 26% for agreeing response; 60% compared to 65% for neutral response; and 1% compared to 9% for disagreeing response).

Statement 5 investigates whether tax laws or regulations are now simpler. From the response it is apparent that the majority of respondents agree with this, as presented in Table 6.16.

Table 6.16: Response to Statement Whether Tax Laws are Simpler

Response	n	%
Strongly agree	39	16
Agree	140	57
Neutral	65	27
Disagree	1	0
Overall	*245*	*100*

Note: One respondent did not answer this question.

When the responses are analysed based on the use of consultants, the proposing of tax objections and appeals, and the number of staff assigned to taxes, proportions does not vary significantly, as shown in Tables 6.17, 6.18, and 6.19.

Table 6.17: Response to Statement Whether Tax Laws are Simpler Based on the Use of Tax consultants

Using consultants routinely	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Yes	86	71	34	28	1	1	121
No	93	75	31	25	0	0	124
Overall	*179*	*73*	*65*	*27*	*1*	*0*	*245*

Table 6.18: Response to Statement Whether Tax Laws are Simpler Based on Tax Objection and Appeal Cases

Type of companies	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Proposing objection	27	75	9	25	0	0	36
Proposing appeal	7	50	7	50	0	0	14
Not proposing either objection or appeal	152	73	56	27	1	0	209
Overall	*179*	*73*	*65*		*1*	*0*	*245*

Table 6.19: Response to Statement Whether Tax Laws are Simpler Based on the Number of Staff

Number of staff	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
0–2	98	64	53	35	1	1	152
3–5	76	89	9	11	0	0	85
More than 5	5	63	3	38	0	0	8
Overall	*179*	*73*	*65*	*27*	*1*	*0*	*245*

It can be seen from Tables 6.17 to 6.19 that the difference in type of company based on the factors related to the complexity of tax laws and regulations, namely the use of tax consultants, tax objections and appeals, and the number of staff managing tax matters in

the companies, does not affect the response on the question considerably, as shown by the level of agreement of 71 per cent and 75 per cent (Table 6.18), 75, 50 and 73 per cent (Table 6.19) and 64, 89 and 63 per cent (Table 6.20).

6.2.3 Attitudes towards the Current Tax Service Offices

The five statements in this group investigate the attitudes toward the tax office where the taxpayers interact regularly, covering the subject of tax return submission (Statement 6), the competency of the tax officers (Statement 7), the service provided (Statement 8), the audit process (Statement 9) and the overall satisfaction (Statement 10).

Statement 6 on whether submitting tax returns now is easier than before produces a positive response with 68 per cent respondents agree and seven per cent strongly agree, with an additional 24 per cent neutral responses, as can be seen in Table 6.20.

Table 6.20: Response to Statement Whether Tax Return Submission is Easier

Response	n	%
Strongly agree	18	7
Agree	168	68
Neutral	58	24
Disagree	2	1
Overall	*246*	*100*

Note: No respondent stated “strongly disagree” for this statement.

Statement 7 on whether the tax officers are now more competent in performing their jobs, results in different responses compared with the Statement 6, with more respondents disagreeing as can be seen in Table 6.21.

Table 6.21: Response to Statement Whether Tax Officers are More Competent

Response	n	%
Strongly agree	19	8
Agree	134	55
Neutral	62	25
Disagree	31	13
Total	*246*	*100*

Note: No respondent chooses “strongly disagree” for this statement.

Table 6.21 shows that the agreement for this statement is 63 per cent (i.e. 55% agree plus 8% strongly agree), while 25 per cent of the respondents are neutral and 13 per cent disagree.

Further analysis on the composition of the respondents answering this question is presented in Tables 6.22 to 6.25.

Table 6.22: Response to Statement Whether Tax Officers are More Competent Based on Sector

Sector	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Retail and wholesale trading	46	60	25	32	6	8	77
Manufacturing	57	70	17	21	7	9	81
Service	15	79	4	21	0	0	19
Transportation, warehouse, communication	6	46	2	15	5	38	13
Construction	8	62	5	38	0	0	13
Reals estate, rental	3	50	1	17	2	33	6
Mining, extraction	4	50	4	50	0	0	8
Others	14	48	4	14	11	38	29
Overall	*153*	*62*	*62*	*25*	*31*	*13*	*246*

Table 6.23: Response to Statement Whether Tax Officers are More Competent Based on the Length of Operation

Length of Operation	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
More than 10 years	114	62	40	22	30	16	184
5–10 years	29	58	20	40	1	2	50
1–5 years	10	83	2	17	0	0	12
Overall	*153*	*62*	*62*	*25*	*31*	*13*	*246*

Table 6.24: Response to Statement Whether Tax Officers are More Competent Based on Annual Turnover

Annual turnover	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Less than IDR3 billion	0	0	3	50	3	50	6
IDR3–10 billion	29	74	0	0	10	26	39
IDR10–50 billion	21	31	39	57	8	12	68
IDR50–100 billion	29	81	5	14	2	6	36
More than IDR100 billion	74	76	15	15	8	8	97
Overall	*153*	*62*	*62*	*25*	*31*	*13*	*246*

Table 6.25: Response to Statement Whether Tax Officers are More Competent Based on the Use of Tax Consultants

Type of companies	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Using tax consultant	97	80	21	17	3	2	121
Not using tax consultants	56	45	41	33	28	22	125
Overall	*153*	*62*	*62*	*25*	*31*	*13*	*246*

It can be seen from Table 6.23 to Table 6.25 that the agreeing answers originate from all the sectors ranging from 46 per cent of respondents in the transportation sector to 79 per cent in the service sector; from different length of operation of the companies ranging from 58 per cent for the companies in the 5–10 years category to 83 per cent for the youngest companies (less than 5 years in operation); and from all annual turnover groups except the group of companies with annual turnover less than IDR3 billion. Conversely, respondents who disagree with the statement mainly operate in the "other" and manufacturing sectors, have been doing business for more than ten years, have annual turnover of between IDR3 billion and IDR10 billion and perhaps surprisingly do not hire tax consultants for their routine activities.

Statement 8 on whether the service provided is now better, results in 83 per cent agreement with 13 per cent neutral and only five per cent disagreement, as can be seen in Table 6.26.

Table 6.26: Response to Statement Whether Service Provision is better

Response	n	%
Strongly agree	31	13
Agree	172	70
Neutral	32	13
Disagree	11	5
Total	*246*	*100*

Note: No respondent chooses "strongly disagree" for this statement

When faced with Statement 9 on whether the tax audit process is now simpler, the response is somewhat balanced between neutral (48%) and agree (43%, comprising 39% agree and 4% strongly agree), as presented in Table 6.27.

Table 6.27: Response to Statement Whether Tax Audit is Simpler

Response	n	%
Neutral	116	48
Agree	93	39
Disagree	19	8
Strongly agree	9	4
Overall	*237*	*100*

Note: No respondent chooses "strongly disagree" for this statement. Nine respondents do not answer this question.

This statement relates to tax audits, therefore, any differing attitudes from the taxpayers who are audited is analysed, and the finding is presented in Table 6.28.

Table 6.28: Response to Statement Whether Tax Audit is Simpler Based on Tax Audit Cases

Type of companies	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Audited	39	41	56	59	0	0	95
Not audited	63	44	60	42	19	13	142
Overall	*102*	*43*	*116*	*49*	*19*	*8*	*237*

From Table 6.28 it can be seen that of 95 companies that are audited during the year researched, 39 companies (41%) agree with the statement, 56 companies (59%) neutral, and no companies disagree. It is interesting to note that of 19 companies who disagree with the statement, all were not audited during the researched year. This might mean that their responses are based on their prior experience or based on the information they obtain from other parties.

Finally, when faced with Statement 10 whether the respondents are satisfied with the overall performance of the tax offices where they are registered, the majority of respondents agree, as shown in Table 6.29.

Table 6.29: Response to Statement Whether They are Satisfied with Overall Performance of the Tax Administration

Response	n	%
Strongly agree	20	8
Agree	159	65
Neutral	65	26
Disagree	1	0
Overall	*245*	*100*

Note: No respondent states "strongly disagree" for this statement. One respondent does not answer this question.

Table 6.29 shows that despite a number of disagreements on the statements saying that the process of tax return submission is now easier (Statement 6, Table 6.20), that tax officers are more competent (Statement 7, Table 6.21), that the service provided is now better (Statement 8, Table 6.26), and that the tax audit mechanism is simpler (Statement 9, Table 6.27), respondents overall are satisfied with the performance of their respective tax offices (73 per cent agree or strongly agree, 26 per cent neutral and below one per cent disagree).

6.2.4 Attitudes towards the Account Representatives

As discussed in the previous sections, the interaction between taxpayers and tax office is conducted through specific personnel in the tax office named Account Representatives (ARs). This includes consultation on tax regulations sought by taxpayers, tax objection proposals, tax payment arrangements, and tax return submissions. ARs are assigned by the tax offices to supervise the compliance of taxpayers under his/her jurisdiction; a job that includes analysing taxpayers financial statements, monitoring the payment of tax arrears, pursuing certain information from taxpayers, and collecting industry data related to the line of business of the taxpayers' they handle. There are four statements regarding the respondents' attitude toward the AR (Statements 11, 12, 13, and 17) and three statements on whether this new system with ARs affects their compliance costs (Statements 14 to 16).

Statement 11 on whether the ARs are helpful produces positive responses (74 per cent agree or strongly agree; 16 per cent neutral; and eight per cent disagree). The detail is presented in Table 6.30.

Table 6.30: Response to Statement Whether the ARs are Helpful

Response	n	%
Strongly agree	18	8
Agree	168	68
Neutral	40	16
Disagree	20	8
Overall	*246*	*100*

Note: No respondent stated "strongly disagree" for this statement.

In order to investigate who does not agree with the statement, a breakdown of the respondents is presented in Tables 6.31 to 6.35.

Table 6.31: Response to Statement Whether the ARs are Helpful Based on Sector

Sector	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Retail and wholesale trading	61	79	13	17	3	4	77
Manufacturing	71	88	5	6	5	6	81
Service	14	74	0	0	5	26	19
Transportation, warehouse, communication	7	54	4	31	2	15	13
Construction	10	77	3	23	0	0	13
Reals estate, rental	4	67	2	33	0	0	6
Mining, extraction	6	75	2	25	0	0	8
Others	13	45	11	38	5	17	29
Overall	*186*	*76*	*40*	*16*	*20*	*8*	*246*

Table 6.32: Response to Statement Whether the ARs are Helpful Based on the Length of Operation

Length of Operation	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
More than 10 years	143	78	21	11	20	11	184
5–10 years	32	64	18	36	0	0	50
1–5 years	11	92	1	8	0	0	12
Overall	186	76	40	16	20	8	246

Table 6.33: Response to Statement Whether the ARs are Helpful Based on Annual turnover

Annual turnover	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Less than IDR3 billion	3	50	3	50	0	0	6
IDR3–10 billion	31	79	8	21	0	0	39
IDR10–50 billion	58	85	10	15	0	0	68
IDR50–100 billion	28	78	5	14	3	8	36
More than IDR100 billion	66	68	14	14	17	18	97
Overall	*186*	*76*	*40*	*16*	*20*	*8*	*246*

Table 6.34: Response to Statement Whether the ARs are Helpful Based on the Use of Consultants

Using consultants routinely	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Yes	91	75	20	17	10	8	121
No	95	76	20	16	10	8	125
Overall	*186*	*76*	*40*	*16*	*20*	*8*	*246*

Table 6.35: Response to Statement Whether the ARs are Helpful Based on the Number of Staff Managing Taxes

Number of staff	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
0–2	122	80	21	14	10	7	153
3–5	58	68	17	20	10	12	85
More than 5	6	75	2	25	0	0	8
Overall	*186*	*76*	*40*	*16*	*20*	*8*	*246*

From Table 6.31 to Table 6.35 it can be seen that the respondents who mainly disagree with the statement that ARs are helpful are operating in various sectors (retail and wholesale trading, manufacturing, service, transportation, and "other" sector in Table 6.31); in the business for more than ten years (Table 6.32); having annual turnover of more than IDR50 billion (Table 6.33); and hiring fewer than six full-time employees to manage their tax affairs (Table 6.35). Meanwhile, the respondents who do not agree with the statement are distributed evenly between the companies who hire tax consultants regularly and those who do not (Table 6.34).

Statement 12 on whether the ARs are knowledgeable on tax laws and regulations results in slightly more agreement (46%) than neutral response (41%). The disagreement accounts for 13 per cent. The detail is presented in Table 6.36.

Table 6.36: Response to Statement Whether the ARs are Knowledgeable

Response	Frequency	%
Strongly agree	19	7
Agree	96	39
Neutral	100	41
Disagree	31	13
Overall	*246*	*100*

Note: No respondent stated "strongly disagree" for this statement.

As in the case with the previous statements, a breakdown of the respondents reveals who agree and who do not agree with the statement, as presented in Table 6.37 to Table 6.41.

Table 6.37: Response to Statement Whether the ARs are Knowledgeable Based on Sector

Sector	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Retail and wholesale trading	24	31	49	64	4	5	77
Manufacturing	52	64	24	30	5	6	81
Service	14	74	0	0	5	26	19
Transportation, warehouse, communication	4	31	5	38	4	31	13
Construction	10	77	3	23	0	0	13
Reals estate, rental	1	17	4	67	1	17	6
Mining, extraction	5	63	3	38	0	0	8
Others	5	17	12	41	12	41	29
Overall	*115*	*46*	*100*	*41*	*31*	*13*	*246*

Table 6.38: Response to Statement Whether the ARs are Knowledgeable Based on the Length of Operation

Length of Operation	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
More than 10 years	83	45	79	43	22	12	184
5–10 years	31	62	10	20	9	18	50
1–5 years	1	8	11	92	0	0	12
Overall	*115*	*46*	*100*	*41*	*31*	*13*	*246*

Table 6.39: Response to Statement Whether the ARs are Knowledgeable Based on Annual Turnover

Annual turnover	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Less than IDR3 billion	1	17	3	50	2	33	6
IDR3–10 billion	11	28	28	72	0	0	39
IDR10–50 billion	30	44	38	56	0	0	68
IDR50–100 billion	22	61	9	25	5	14	36
More than IDR100 billion	51	53	22	23	24	25	97
Overall	*115*	*46*	*100*	*41*	*31*	*13*	*246*

Table 6.40: Response to Statement Whether the AR are Knowledgeable Based on the Use of Tax Consultants

Using consultants routinely	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Yes	49	40	51	42	21	17	121
No	66	53	49	39	10	8	125
Overall	*115*	*47*	*100*	*41*	*31*	*13*	*246*

Table 6.41: Response to Statement Whether the ARs are Knowledgeable Based on the Number of Staff Managing Taxes

Number of staff	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
0-2	81	53	51	33	21	14	153
3-5	29	34	46	54	10	12	85
More than 5	5	63	3	38	0	0	8
Overall	*115*	*47*	*100*	*41*	*31*	*13*	*246*

It can be seen from Table 6.37 to Table 6.41 that the sector with the most disagreement is the "other" sector with 12 companies, or 41 per cent. The transportation and other sectors who disagree with this statement are represented by five or fewer companies, and it is deemed to be insignificant. The companies who do not agree have been operating for more than five years (Table 6.38), are mostly very large companies having annual turnover of more than IDR100 billion (Table 6.39), and are hiring fewer than six full-time persons to manage tax affairs (Table 6.41). The companies who hire tax consultants routinely have a greater tendency to disagree with the statement (17%) compared to eight per cent of the respondents who do not hire (Table 6.40).

One of the functions of the AR is to provide guidance to taxpayers. Statement 13 inquires about the attitude of the taxpayers as to whether the AR could ease the stress on the companies to comply with the tax laws and regulations. The reaction is presented in Table 6.42.

Table 6.42: Response to Statement Whether the ARs Could Ease the Stress

Response	n	%
Strongly disagree	11	5
Agree	68	28
Neutral	129	52
Disagree	38	15
Overall	*246*	*100*

Note: No respondent chooses "strongly disagree" for this statement.

From Table 6.42 it can be seen that more than half of respondents (129 companies, or 52%) choose the neutral response for this statement, with 20 per cent agreeing and 15 per cent disagreeing. The breakdown of the respondents on this statement is presented in Table 6.43 to Table 6.47.

Table 6.43: Response to Statement Whether the ARs Could Ease the Stress Based on Sector

Sector	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Retail and wholesale trading	8	10	58	75	11	14	77
Manufacturing	35	43	28	35	18	22	81
Service	10	53	6	32	3	16	19
Transportation, warehouse, communication	0	0	7	54	6	46	13
Construction	0	0	11	85	2	15	13
Reals estate, rental	2	33	4	67	0	0	6
Mining, extraction	5	63	3	38	0	0	8
Others	8	28	12	41	9	31	29
Overall	*68*	*28*	*129*	*52*	*49*	*20*	*246*

Table 6.44: Response to Statement Whether the ARs Could Ease the Stress Based on the Length of Operation

Length of Operation	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
More than 10 years	66	36	81	44	37	20	184
5–10 years	0	0	38	76	12	24	50
1–5 years	2	17	10	83	0	0	12
Overall	*68*	*28*	*129*	*52*	*49*	*20*	*246*

Table 6.45: Response to Statement Whether the ARs Could Ease the Stress Based on Annual turnover

Annual turnover	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Less than IDR3 billion	0	0	4	67	2	33	6
IDR3–10 billion	11	28	28	72	0	0	39
IDR10–50 billion	11	16	49	72	8	12	68
IDR50–100 billion	8	22	10	28	18	50	36
More than IDR100 billion	38	39	38	39	21	22	97
Overall	*68*	*28*	*129*	*52*	*49*	*20*	*246*

Table 6.46: Response to Statement Whether the ARs Could Ease the Stress Based on the Use of Tax Consultants

Using consultants routinely	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Yes	31	26	88	73	2	2	121
No	37	30	41	33	47	38	125
Overall	*68*	*28*	*129*	*52*	*49*	*20*	*246*

Table 6.47: Response to Statement Whether the AR Could Ease the Stress Based on the Number of Staff Managing Tax Affairs

Number of staff	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
0–2	33	22	106		14		153
3–5	29	34	23		33		85
More than 5	6	75	0		2		8
Overall	68	28	129		49		246

From Table 6.43 to Table 6.47 it can be seen that the companies who do not agree that the AR could ease the stress tend to operate in the transportation sector (6 of 16 companies, or 46%), the "other" sector (9 of 29 companies, or 31%), and the retail, manufacturing, and service sectors (Table 6.43). They have been operating for more than five years (Table 6.44), mostly have annual turnover of more than IDR10 billion (Table 6.45), and do not hire tax consultants routinely (Table 6.46), as well as having fewer than five full-time employees to manage their taxes (Table 6.47).

With minority disagreements on the statements that the AR are helpful (Statement 11), are knowledgeable (Statement 12), and could ease the pressure to the companies (Statement 13), the final Statement 17 queries whether ARs are indeed essential for the companies in fulfilling the tax obligations. The result is presented in Table 6.48.

Table 6.48: Response to Statement Whether the ARs are Essential

Response	n	%
Strongly agree	13	5
Agree	91	37
Neutral	122	50
Disagree	11	5
Strongly disagree	9	3
Total	*246*	*100*

The responses are closely similar with those in Table 6.42. As many as half of the respondents choose to stay neutral with more agreement (37% agree plus 5% strongly agree) than disagreement (5% disagree and 3% strongly disagree). The breakdown of the respondents based on sector, length of operation, annual turnover, number of staff, and the use of tax consultant are presented in Table 6.49 to Table 6.53.

Table 6.49: Response to Statement Whether the ARs are Essential Based on Sectors

Sector	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Retail and wholesale trading	33	43	39	51	5	6	77
Manufacturing	32	40	39	48	10	12	81
Service	13	68	6	32	0	0	19
Transportation, warehouse, communication	4	31	9	69	0	0	13
Construction	0	0	11	85	2	15	13
Reals estate, rental	4	67	2	33	0	0	6
Mining, extraction	0	0	5	63	3	38	8
Others	18	62	11	38	0	0	29
Overall	*104*	*42*	*122*	*50*	*20*	*8*	*246*

Table 6.50: Response to Statement Whether the ARs are Essential Based on the Length of Operation

Length of Operation	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
More than 10 years	87	47	78	42	19	10	184
5–10 years	17	34	32	64	1	2	50
1–5 years	0	0	12	100	0	0	12
Overall	*104*	*42*	*122*	*50*	*20*	*8*	*246*

Table 6.51: Response to Statement Whether the ARs are Essential Based on Annual Turnover

Annual turnover	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Less than IDR3 billion	0	0	4	67	2	33	6
IDR3–10 billion	19	49	20	51	0	0	39
IDR10–50 billion	11	16	57	84	0	0	68
IDR50–100 billion	16	44	16	44	4	11	36
More than IDR100 billion	58	60	25	26	14	14	97
Overall	*104*	*42*	*122*	*50*	*20*	*8*	*246*

Table 6.52: Response to Statement Whether the ARs are Essential Based on the Number of Staff Managing Taxes

Number of staff	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
0–2	49	32	92	60	12	8	153
3–5	50	59	29	34	6	7	85
More than 5	5	63	1	13	2	25	8
Overall	*104*	*42*	*122*	*50*	*20*	*8*	*246*

Table 6.53: Response to Statement Whether the ARs are Essential Based on the Use of Tax Consultants

Using consultants routinely	Agree		Neutral		Disagree		Total
	n	%	n	%	n	%	
Yes	58	48	52	43	11	9	121
No	46	37	70	56	9	7	125
Overall	*104*	*42*	*122*	*50*	*20*	*8*	*246*

From Table 6.49 it is found that there is no sector that has disagreeing respondents more than the agreeing ones. The service sector, real estate and "other" sectors tend to agree with this statement with percentage of 68, 67 and 62, respectively. The agreement that the AR indeed is essential comes from respondents operating more than five years (Table 6.50) and having more than IDR3 billion annual turnover (Table 6.51). The more the companies hire full-time employees to handle taxes, the more they agree on the need for the AR (Table 6.52). The companies who hire tax consultants tend to agree on the need for an AR compared to those who do not hire consultants (Table 6.53).

6.3 The Effects of Tax Administration Reforms on the Compliance Costs

There are three statements regarding the effect of the new system in the tax office with the introduction of the ARs, namely whether the new system reduces the compliance costs (Statement 14), increases (Statement 15), or does not affect the costs (Statement 16). The results of each statement are presented in Tables 6.54 to Table 6.56.

Table 6.54: Response to Statement Whether the New System Reduce the Compliance Costs

Response	n	%
Strongly agree	1	<1
Agree	33	13
Neutral	163	66
Disagree	49	20
Overall	*246*	*100*

Note: No respondent chooses "strongly disagree" for this statement.

Table 6.55: Response to Statement Whether the New System Increase the Compliance Costs

Response	n	%
Agree	20	8
Neutral	144	59
Disagree	70	29
Strongly disagree	12	4
Overall	*246*	*100*

Note: No respondent chooses "strongly agree" for this statement.

Table 6.56: Response to Statement Whether the New System Does not Affect the Compliance Costs

Response	n	%
Strongly agree	2	1
Agree	130	53
Neutral	92	38
Disagree	21	9
Strongly disagree	1	<1
Overall	*246*	*100*

In order to analysis further which respondents agree that the new system reduces, increases or does not affect the compliance costs, the breakdown of each response is undertaken. To simplify the analysis, only the "agree" response to each statement is used. The results are presented in Tables 6.57 to 6.62.

Table 6.57: Response to the Statement on the Effect of the New System on the Compliance Costs Based on Sector

Sector	Reduce		Neutral		Increase		Total
	n	%	n	%	n	%	
Retail and wholesale trading	5	8	49	83	5	8	59
Manufacture	25	37	37	54	6	9	68
Service	0	0	4	100	0	0	4
Transportation, warehouse, communication	0	0	11	85	2	15	13
Construction	0	0	2	50	2	50	4
Reals estate, rental	1	17	5	83	0	0	6
Mining, extraction	0	0	0	0	0	0	0
Others	3	9	24	75	5	16	32
Overall	34	18	132	71	20	11	186

The overall results of the effect of the introduction of the ARs show that the majority of respondents (132 of 186 companies, or 71%) experience no effect on their compliance costs. As many as 34 companies (18%) say that the new system reduces their costs and 20 companies (11%) state otherwise.

Looking deeper, the manufacturing sector benefits most from the tax reform, with 25 of 68 respondents (37%) agreeing that the new system with the AR reduces their compliance costs, followed by the real estate and rental and the "other" sectors with an agreement rate of 17 per cent and 9 per cent respectively. Conversely, there is no single company in three sectors, namely service, transportation, and mining, who agrees that this the new system reduces the compliance costs.

Table 6.58: Response to the Statement on the Effect of the New System on the Compliance Costs Based on Location

Sector	Reduce		Neutral		Increase		Total
	n	%	n	%	n	%	
Java	23	15	108	72	20	13	151
Sumatra	10	50	10	50	0	0	20
Sulawesi	0	0	3	100	0	0	3
Others	1	8	11	92	0	0	12
Overall	34	18	132	71	20	8	186

Based on the location, respondents on Sumatra Island benefit most from the reform, with half of the respondents (10 of 20 companies) agreeing that the new system reduces their costs of compliance. Conversely, respondents on Java Island have the biggest percentage among companies who state that the new system increases the costs of compliance.

Table 6.59: Response to the Statement on the Effect of the New System on the Compliance Costs Based on the Length of Operation

Length of operation	Reduce		Neutral		Increase		Total
	n	%	n	%	n	%	
More than 10 years	33	23	92	63	20	14	145
5–10 years	0	0	39	100	0	0	39
1–5 years	1	50	1	50	0	0	2
Overall	34	18	132	71	20	11	186

Based on the length of operation, the older the companies, the more opportunity to benefit from the reform, as can be seen in Table 6.59. As many as 33 of 145 companies (23%) agree that the new system reduces their compliance costs (one company with 1–5 years or operation can be seen as insignificant).

Table 6.60: Response on the Statement on the Effect of the New System on the Compliance Costs Based on the Number of Employees

Number of employees	Reduce		Neutral		Increase		Total
	n	%	n	%	n	%	
Under 100 employees	2	6	31	91	1	3	34
101–500 employees	0	0	31	100	0	0	31
501–1,000 employees	12	24	37	76	0	0	49
1,001–5,000 employees	10	22	30	67	5	11	45
More than 5,000 employees	10	37	3	11	14	52	27
Overall	34	18	132	71	20	11	186

The tax reform is perceived as more detrimental than beneficial for bigger companies. As can be seen in Table 6.60, companies with more than 5,000 employees has the greater proportion of stating that the reform increases their compliance costs (14 of 27 companies, or 52%) than otherwise (10 of 27 companies, or 37%). For the other categories based on the number of employees, more respondents agree that the reform reduces the compliance costs instead of increasing them, as can be seen in this table showing that in three categories, namely under 100 employees, between 501 and 1,000 employees and between 1,001-5,000 employees categories, respondents who state that the new system reduces the costs are greater than those who say otherwise, at 6 per cent, 24 per cent and 22 per cent compared to 3 per cent, zero per cent and 11 per cent respectively. Perhaps surprisingly, all the respondents in the 101–500 employees category state that the reform does not affect their compliance costs.

Table 6.61: Response to the Statement on the Effect of the New System on the Compliance Costs Based on Annual turnover

Annual turnover	Reduce		Neutral		Increase		Total
	n	%	n	%	n	%	
Less than IDR3 billion	1	20	3	60	1	20	5
IDR3–10 billion	1	5	19	95	0	0	20
IDR10–50 billion	0	0	18	100	0	0	18
IDR50–100 billion	6	15	30	73	5	12	41
More than IDR100 billion	26	25	62	61	14	14	102
Overall	34	18	132	71	20	11	186

Different from the attitudes of the companies based on the number of employees, the attitudes of the companies based on the amount of annual turnover show that the respondents who state that the reform reduces the costs are equal to or more than those who say they increase costs for all categories. As can be seen in Table 6.61, companies in the less than IDR3 billion, between IDR3 billion and IDR10 billion, between IDR50 billion and IDR100 billion, and more than IDR100 billion categories, all express their agreement on reducing the costs more than on increasing the costs, at 20 per cent, 5 per cent, 15 per cent, and 25 per cent compared to 20 per cent, zero per cent, 12 per cent, and 14 per cent respectively. Also interesting is that the 18 companies with the annual turnover between IDR10 billion and IDR50 billion all agree that the reform does not affect their compliance costs.

Table 6.62: Response to the Statement on the Effect of the New System on the Compliance Costs based on Total Assets

Assets	Reduce		Neutral		Increase		Total
	n	%	n	%	n	%	
Less than IDR3 billion	1	14	5	71	1	14	7
IDR3–10 billion	0	0	23	100	0	0	23
IDR10–50 billion	0	0	11	100	0	0	11
IDR50–100 billion	3	7	27	64	12	29	42
More than IDR100 billion	30	29	66	64	7	7	103
Overall	34	18	132	71	20	11	186

The effect of the tax reform is different from one group of companies to the others based on the amount of their total assets. As can be seen in Table 6.62, in the group of companies with IDR50–100 billion total assets, the number of companies who say that the reform increases the costs is greater than those who say that it reduces the costs with the percentage of 29 per cent (12 of 42 companies) compared to 7 per cent (3 of 27 companies). Conversely, for the biggest size category of assets of more than IDR100 billion, more companies view the reform as beneficial (30 of 103 companies or 29%) than detrimental (7 of 103 companies, or 7%). The companies in both IDR3–10 billion and IDR10–50 billion categories all agree that the reform does not affect their compliance costs.

6.4 Findings from the Interviews

6.4.1 Interviews with Taxpayers

The in-depth interviews are conducted after the responses from taxpayers are received. The interviewees are the taxpayers who are willing to do so as indicated in their responses. The interviewees are asked to not reveal the identity of their companies. The location of the interviews varied depending on the interviewees' preferences with the costs of foods and drinks paid for by the current researcher. The interviews were not recorded to facilitate openness; however, careful notes were taken after the interviews to avoid missing information. There were eight taxpayers available for the interviews.

The interviews cover a number of topics, including activities undertaken to comply with tax regulations, the costs of those activities, the costs of tax audits, objections, and appeals, the costs of tax consultants and what they offer, the reform in the tax administration and

its effect, the performance of the ARs, and the areas where the tax administration could improve.

The activities undertaken periodically to comply with tax regulations vary, depending on the taxpayers. There are three kinds of tax returns that need to be submitted, namely for CIT, VAT, and WHT. One taxpayer stated that the company only submits one withholding tax return, namely employees' income tax, whereas other taxpayers report one or more withholding taxes, including taxes on rent and service fees. One taxpayer even has no experience of tax audits, tax objections, and tax appeals, while other taxpayers have experienced more than one.

The composition of the costs varies as well. A number of companies rely on their tax consultants to prepare all documents related to tax matters and the companies do not employ any full-time staff to specially deal with them. The others assign their staff to do the same activities; therefore the majority of the costs are allocated to staff salary. One company employs tax staff as well as hiring tax consultants at the same time. In this case, the staffs prepare all documents and the consultant reviews those documents before submitting them to the tax office. Besides costs for staff and consultants, the other costs incurred are transportation costs to the tax offices or to the banks, utility costs and stationery.

The number of staff is different from one company to another. While some companies do not hire any full-time tax staff, others employ from two to five full-time staff. In an extreme case, one company employs 17 staff to manage its taxation; this is a very large company which produces 18,000 tax invoices per month. The staffs are needed to prepare various tax returns which are not readily available from its computer system.

From the interviews, it becomes clear that the work related to tax matters follows a certain workflow. When a transaction occurs, a tax invoice is produced, and so is the proof of tax withheld, if any. Because tax returns are to be submitted periodically, in this case monthly, all documents related to tax (tax invoice, proof of tax withheld) during a one month period are collected and later summarized by either the tax staff or the tax consultants. The tax payable calculation and the draft of tax returns are prepared and presented to the management in a monthly discussion. After all aspects are agreed, tax payable is paid to the banks and tax returns are submitted to the respective tax offices.

Regarding tax consultants, taxpayers who hire them explain that there are a number of different services offered by tax consultants. These include tax reviews, tax opinions, tax return preparation, representation in tax audits, tax objections, and tax appeals, and transfer pricing documentation. Tax review is an activity conducted by tax consultants to review tax returns prepared by the taxpayers and to suggest changes needed to comply with the tax regulations. Tax opinion is an examination by the tax consultants as to whether a planned transaction, usually a substantial one, might result in a certain tax payable, and if so the consultants might offer a less, yet lawful tax arrangement by altering the method of transaction. Tax return preparation, as the name suggests, is an activity in which the consultants provide the draft of the tax return and prepare all attachments needed to be submitted. Transfer pricing documentation is a service provided by the tax consultants whose product is a document with certain attachments and calculations clarifying that the transactions with related parties are indeed undertaken at "arms-length" prices; this document has been mandatory since 2010 for taxpayers involved in cross-border transaction with their related companies.

As a consequence of differing services, the rate varies from one to another. The rate for tax review according to a taxpayer is approximately IDR50 million (AUD5,500 at the end of 2010 exchange rate) per annual income tax return. Tax opinion fees are based on the duration of the meeting between the taxpayer and the consultants, typically USD2,000 per hour. The usual fee for preparing a tax return is USD10,000 for one large company. Transfer pricing documentation might cost IDR100–200 million (AUD11,000–22,000) per document. Success fees, which are a certain percentage of the reduction in tax payable for tax objection or appeal cases or a percentage of the tax refund for tax restitution cases for tax consultants, generally is 5–30 per cent. Fees for representation in a tax audit is commonly IDR50 million (or AUD5,500) per large company, or with a rate of USD150/hour if the rate is calculated by the hour. It is common that transactions with tax consultants are calculated in USD because a number of tax consulting companies are subsidiaries of their respective US companies.

All the interviewees agree that the tax administration now has been better in terms of human resources, systems and procedures, and information technology. In terms of human resources, the taxpayers generally regard positively the performance of the ARs as their first and main contact with the tax administration. The existence of an AR makes it clear for taxpayers regarding where they should consult if there is a concerning matter. The AR also

reminds the taxpayer if there is a late report or late payment. The AR is also knowledgeable about tax regulations and they respond promptly to questions from taxpayers. Tax auditors are also now perceived as more professional and more prudent. Both the AR and tax auditors result in cost-saving, because there is no longer unofficial payment involved.

The system and procedures in the tax administration result in easiness for taxpayers to comply with tax regulations. One taxpayer is impressed with the security process when visiting one tax office which guarantees that only the parties with clear intention are allowed to enter the building. There is also a procedure that enables taxpayers to request the formation of a review team in the tax office and in the regional office if there is a substantial disagreement between the taxpayer and tax auditors during a tax audit. This team is independent of the audit team. This review team will judge if the findings of tax auditors are in conformity with tax laws.

The computer system is also regarded as better compared to the past, as it enables taxpayers to submit tax returns more easily. The opportunity for taxpayers to submit tax returns in the form of an electronic file results in cost-saving because there is no need to produce paper copies of the same documents.

Overall, tax reform in the tax administration is viewed as better compared with that of other government organizations and even of other parts of the Ministry of Finance. According to some taxpayers, the reform in the tax administration produces real changes in its organization and personnel, and not only on the surface.

However, despite some positive reviews above, there are still a number of shortcomings in the current tax administration in various aspects. For example, there are a number of ARs, usually with a non-accounting educational background, who are not more or as knowledgeable as the taxpayers themselves, making it difficult for taxpayers to obtain clear guidance. Some taxpayers also opine that because the supervision from the tax offices is now closer, psychological costs arise because the taxpayers feel more stress. Tax auditors are also viewed as sometimes too conservative in making tax adjustments, resulting in unnecessary costs for tax objections and appeals. On more than one occasion, for the same occurrence, there are different opinions between the AR and the tax auditors even though they work at the same tax office.

Several taxpayers also express their disappointment on some current procedures. For example, it takes a considerable time to answer a question from a taxpayer because the

question has to be conveyed to the tax headquarters; the local and regional tax office does not have authority to respond to it. Also, the decisions in tax objection cases are often viewed as mostly favourable for the tax office due the fact that any tax objection review is undertaken by a body inside the tax administration, not an outside agency as is the case in a tax appeal. In addition, a ruling for a specific taxpayer sometimes is regarded as valid for that taxpayer only, not for taxpayers in general even though the nature of those transactions is similar.

6.4.2 Interview with Tax Consultants

Besides a number of tax managers, there are three tax consultants who are willing to be interviewed during this research. The contacts are made through personal acquaintances. The questions focus on their organizations, their service, and their view on the current tax administration.

There are two organizational types of tax consultants, namely 'single' tax consultant and 'corporate' tax consultant. In the former, the organization consists of one tax expert who is the single source of tax knowledge and the main person in contact with the clients, and a number of staff who undertake clerical jobs such as collecting documents, preparing tax returns, and submitting the forms. In the latter, the organization acts like a modern company with clear division of tasks. In this company, there is a marketing division, training division, and other divisions based on the type of taxes, such as a VAT and an income tax division. The consultant fee for this type is basically higher because the overhead costs are usually more.

There are a number of services offered to the clients. They include tax planning, tax opinion, retainer (monthly preparation of tax returns), tax audit, objection and appeal representation, transfer pricing documentation, and income tax reviews. The costs for tax planning, tax opinion and income tax review vary depending on the complexity of the underlying transactions. Retainer cost is the least expensive cost, ranging from IDR1 to 3 million per month. The costs for transfer pricing documentation range from IDR100–200 million (AUD11,000–22,000 at the 2010 exchange rate). There is a fixed cost and success fee for audit, objection, and appeal cases. One consultant notes that there is an increasing trend of using tax consultants because now there are more objection and appeal cases, probably due to the tax auditors being more cautious than before.

The view of tax consultants on the current tax administration is generally positive. They highlight the fact that there is now less corruption in the tax office compared to the conditions existing before the latest tax administration reform, resulting in cost saving. They also acknowledge that the reform in the tax administration is better than that of other government agencies. However, they also feel that a limited number of ARs are being overly demanding by asking more questions to the taxpayers under his/her supervision, much like tax auditors do. In addition, tax auditors are sometimes viewed as not being fair by not fully incorporating the explanations provided by the taxpayers when assessing their tax liabilities.

6.5 Findings from the Focus Group Discussions

6.5.1 Overview

The participants of the focus group discussion were recruited from a mailing list of tax managers whose members, as the name suggests, are the tax managers in various companies. According to the mailing list administrator, the membership of the list is approximately 300 tax managers. The mailing list is a "closed" group, meaning that the membership of the list is based on recommendations from already-registered members. The purpose of the formation of this mailing list is to share ideas and experience among the members who deal with tax matters in their respective companies, including their interaction with tax offices and the dissemination of newly published tax regulations. The participants for this discussion were invited by the moderator of the mailing list who explained the purpose of the discussion and what was expected and where and when the discussion would be held. After the invitation was distributed through the mailing list via email, eleven tax managers were willing to join the discussion and they were present at the eventual discussion.

The discussion took place in an office of one of the participants. The discussion started with the foreword from the researcher which included an appreciation for their willingness to participate, the introduction of the researcher, the introduction of the participants without mentioning the names of the companies they currently work for, explanations of the goals of the research, a description of the goals of the discussion, and the arrangement of the discussion flow. After the forewords, the discussion started with the question from a moderator and the group then discussed the responses based on their experience and knowledge. After one topic was discussed the next topic was proposed until all the

intended topics were covered. At the end of the discussion, all participants were given a travel book as an appreciation of their willingness to participate. The meal and drinks were paid for by the researcher. The discussion was audio-recorded with the consent of the participants.

There were two topics discussed in the meeting, namely the compliance costs and the tax administration reform. The topic on compliance costs consisted of the composition of the costs, the number of staff employed to deal with tax matters and the allocation of the costs into types of taxes and the activities involved. Also discussed was the role of tax consultants and tax lawyers and on what basis they charge the companies for their services. The topic on tax administration reform covered the experience of the participants with the reformed tax office, a comparison of the situation before and after the reform, the effect of the reform on the compliance costs, and a comparison of the reform in the tax office and other government offices.

6.5.2 Compliance Costs

The participants agree that overall the costs consist of staff salaries, stationery and other costs, including consultant fees. Salaries for staff in the tax section of their companies are not discussed openly in the meeting because it was a private matter for them as they are part of the tax staff. The number of staff involved in managing tax generally ranges from two to four people. The allocation of the staff differ from one company to another; it can be divided either by type of taxes, by the process, or by companies. In a company where the division of staff is based on the type of taxes, there are staffs who are separately assigned to handle CIT, VAT and WHT. In other companies, the division of labour is based on the process, in which separate staffs are assigned for collecting tax invoices and documents, preparation of tax returns, reviewing the returns, and submitting them. In a company with several different branch locations, generally the division is based on the location with different staff handling different branches.

The discussants agree that handling VAT is more complicated than income tax and withholding tax. Several factors contribute to this difficulty, including the number of transactions completed during a one-month period that have to be tax-invoiced, the additional activities needed to reconcile records for commercial and tax purposes, and the adjustments needed due to frequent changes in VAT regulation. Consequently, VAT handling is considered to be riskier than other taxes. Handling other taxes is considerably

easier because it is either only undertaken once a year in the case of income tax, or it is a repeated and with limited number of transactions with the same tax treatment in the case of withholding taxes.

Among the taxation processes, tax audit is the most complex activity compared to others such as preparing tax returns, proposing tax objections, and dealing with tax appeals. During the audits, taxpayers have to prepare documents required, hire tax consultants if necessary, communicate with the tax auditors, defend their positions, and report to the top management in the companies. A tax audit is also risky and crucial because the results of the audit would determine whether the company has complied with all tax regulations. Tax audits also frequently result in subsequent activities, and hence subsequent costs, such as a tax objection if the company is not satisfied with the adjustments assessed by the tax office during the audit and tax appeal if the company still further does not agree with the decision by the tax office in the tax objection case.

The tax consultants are hired in different phases of tax management in a company. If a company is newly formed or is involved in new and repeated transactions, tax consultants are needed to establish Standard Operating Procedure (SOP) that are compliant with tax regulations, regarding how to record these transactions, how to withhold taxes and at what rate, and how to report these transactions in required tax forms. Tax consultants are also hired if a company intends to complete a merger or acquisition with other companies. In this case the consultants are assigned to assess the tax compliance of targeted companies to avoid unnecessary taxes liabilities in the future and to calculate potential tax payable as a result of the merger or acquisition.

For routine operations, tax consultants are hired to help companies better manage tax affairs. The services provided include tax planning, preparation of monthly and annual tax returns, calculation of year-end income tax payable, review of tax returns prepared by the companies, representation in tax audits, tax objections and tax appeals, and preparation of required documents such as Transfer Pricing Documentations (known as “TP Docs” in Indonesia) for companies involved in cross-border transaction. Companies may choose to hire tax consultants either for one or those several activities.

The costs of tax consultants vary depending on the method of calculation, the scope of work, and the expertise of the consultants. Regarding the method of fee calculation, a number of consultants charge their clients based on a fixed fee. For example, a tax

consultant may charge IDR50 million (AUD4,500 at 2010 exchange rate) for one tax return preparation regardless of the time needed to complete it. Other consultants may charge based on the calculation of man-hours with their respective hourly rate. In addition, there are tax consultants who charge their clients based on a "success fee"; meaning that the consultants will earn a certain percentage of any eventual reduction in tax liabilities (in the case of a tax objection or tax appeal), or tax refunded (in the case of a tax refund). The fees for tax consultants from highly reputable companies (known as 'The Big Four' in Indonesia, consisting of PWC, Ernst and Young, DeLoitte, and KPMG) are generally much higher than those from other companies.

The last issue with the costs for tax consultancy relates to payments to prepare "Transfer Pricing Documentation" which is mandatory since 2010 for companied engaging in cross-border transactions with their related parties (parent companies, subsidiaries). Some participants state that the costs are expensive and not fair, because with the cost of approximately IDR100 million to IDR200 million (approximately AUD11,000 to 22,000 at the 2010 exchange rate), what the clients obtain is a fairly simple document. In addition, there is only a limited number of tax consultants who are able to prepare these documents; hence the clients are in a weaker bargaining position compared to that of the consultants. The other participants opine that the costs are fair because to prepare such a document, it requires extensive research and specialized expertise.

6.5.3 Tax Administration Reform

All participants are aware that there is an on-going reform in the tax administration, since the discussants have been involved in tax affairs for more than five years. Considering that the participants have experienced in managing taxes in their respective companies for a significant amount of time, their assessment on the tax administration reform are arguably valid.

The participants agree that overall the reform has been beneficial for their companies. Service is now better in term of the speediness. There is an AR in the tax office with which the companies make contact and seek help from the tax administration. The ARs are regarded as knowledgeable on tax regulations and procedures, particularly in the LTO and MTO.

Regarding the effect of the tax reform on the compliance costs, the discussants overall agree that it does create a positive effect. The cost-saving is significant since the

introduction of “e-filing”, which is new software that enables companies to submit their tax returns electronically. With this system, a company does not need to attach physical documents in its tax form, in turn saving the costs of copying the documents otherwise required in the old system.

In a broader sense, the reform in the tax administration is viewed as considerably better than in other government organizations, even compared to that in other parts of the Ministry of Finance. A number of participants state that the service in the tax administration is much better than in other government organizations such as in the Ministry of Trade and Industry, in the Ministry of Religious Affair, and in some local governments. In addition, the service in the tax office is also regarded by several participants as reasonably better compared to that in the customs office in the Ministry of Finance. Specifically, interaction with the tax offices now does not involve unofficial payment compared to the past, and compared to that with other government organizations.

However, despite a number of advancements, the reform also sees some shortcomings according to some discussants. This includes the less knowledgeable staff in certain tax offices, particularly in small and remote areas, even though some participants stated that this also frequently occurs in the capital city of Jakarta. In addition, because of the tour of duty implemented in the tax offices, a number of highly qualified AR who have been known by and familiar with the taxpayers are now assigned to another tax office with their replacements being less knowledgeable. With the double tasks of the AR to provide guidance to taxpayers and to supervise the compliance of taxpayers, it is occasionally problematic for taxpayers to seek an appropriate ruling for their specific transactions because sometimes the AR assumes that the transactions in question have already been completed and they pursue the potential tax payable. Lastly, there are still a small number of tax officers who are involved in several corruption cases as widely broadcast on television and published in the newspapers, and this accordingly undermines the taxpayers trust toward the tax administration.

6.6 Summary

This chapter discusses the qualitative part of the research obtained from the survey and the interview as well as focus group discussion. The survey investigates the attitude of large corporate taxpayers in Indonesia towards the Indonesian tax administration after the

reform has been implemented regarding four items, namely, the overall tax administration, the tax offices where the taxpayers are registered, their Account Representatives, and the effects of tax administration reform on their compliance costs. The interviews and focus group discussion were undertaken to gain a better understanding of the subjects covered by the survey.

Overall, the current condition of the tax administration is viewed as better compared to that before the reform. With varying degrees, respondents agree that the information and computer system makes it easier for taxpayers to fulfil their tax obligation (91% agreeing response); that it is easier now to obtain tax ruling clarifications (55%); that the procedures for tax objection and appeal are now simpler (32%); and that the tax laws and regulations are now easier to comply with (73%). Even though the agreeing response in the statement of whether the procedures for tax objection and appeal are simpler only counts for 32%, it should be noted that it is still higher than the disagreeing response of five per cent (the remaining response are "neutral"). The companies who hire tax consultants for their routine activities agree to that statement as well with a greater percentage (39%) compared to those who do not hire them (26%)

Regarding the tax office where the taxpayers are registered and to where they submit the tax returns, the attitudes are positive as well. Also with varying degrees, the taxpayers agree that the procedures for tax return submission is now easier (75% agreeing response); that the tax officers are now more competent (63%); that the services are now better provided (83%); and that the taxpayers are satisfied with the overall performance of their respective tax offices (73%). There is only one statement that produces a less than 50 per cent agreeing response, namely on the tax audit process (43%). However, it should be noted here that nearly half of the respondents (48%) choose to stay neutral to this statement and only eight per cent voice their disagreement. Eighty per cent of respondents who hire tax consultants agree that the tax officers are now more competent; this percentage is bigger than for those who do not hire the consultants (45%). Regarding the procedures of tax audits, the positive response is distributed evenly between the companies who are audited and those who are not, with percentages of 41 and 44 per cent respectively.

Different from the above subjects, mixed results emerge when the respondents are asked about their attitude towards the ARs through whom they interact with the tax administration. While 74 per cent of respondents state that the AR are helpful, just under

half (46%) say that the ARs are knowledgeable, with 41 per cent of respondents choosing to stay neutral. In addition, only 32 per cent of the respondents consider that the assistance of the ARs could ease the pressure on taxpayers in fulfilling their tax obligations, with more than half (52%) of respondents not having an opinion on this. Finally, when asked whether the companies indeed need the AR, 42 per cent of respondents agree, eight per cent disagree and the remaining 50 per cent are neutral.

Related to the compliance costs, a majority (70%) of respondents state that the tax administration reform, whose core is the change in the organisational structure with the introduction of the AR position in the tax offices, does not affect their compliance costs. On a positive note, more respondents (18%) consider that this reform does reduce the compliance costs compared to those who state otherwise (11%). The reduction in the costs tends to be enjoyed mostly by the companies operating in the manufacturing sector, located on Sumatra Island, employing 501 to 1,000 workers, and having an annual turnover of more than UDR100 billion and total assets of more than IDR100 billion. Conversely, an increase in the compliance costs is experienced by companies operating in the "other" sector, located on Java Island, have been operating for more than ten years, employing more than 5,000 people, and having assets of IDR50-100 billion.

These qualitative results of the survey are also comparable with the results from the interviews and focus group discussion where it is shown that despite some minor drawbacks, the tax administration reform is generally well received by the taxpayers because it yields improvements in the service they receive, the professionalism of the tax officers with whom they interact and the advancement of the information technology they experience.

Chapter 7. Discussion of Findings

7.1 Introduction

This chapter aims to place the results of the research into context. Specifically, it answers how the compliance costs and the attitude of large companies in Indonesia fare domestically as well as internationally by comparing the results of the current survey with those of the prior survey in Indonesia and similar surveys in other countries. The comparison covers both quantitative and qualitative aspects. This chapter also discusses the relationship between the compliance costs and the complexity of a tax system, particularly in Indonesia. Even though this research is not specifically designed to answer the question on the effectiveness of the Indonesian tax administration reforms, parts of the results of this survey may provide some indication of its achievement.

This chapter starts with a comparison of the results of the survey with prior research, both domestic and international in Section 7.2, with the emphasis on estimates of the amount, the components and the allocation of the compliance costs. Section 7.3 then discusses a comparison of the attitudes, followed by Section 7.4 with a discussion on the tax administration reform in Indonesia, particularly its relative position in the domestic and international contexts and its effectiveness based on the survey. Lastly, Section 7.5 summarizes the discussion.

7.2 Comparison with Prior Studies

7.2.1 Domestic Comparison

As discussed in the literature review, there has been only one other study in Indonesia regarding tax compliance costs with sound research methodology. This rarity is most probably related to the length of the tax system in Indonesia. As noted by Gillis (1985, 221), Indonesia undertook a complete overhaul of its tax system in 1983 from the old regime which originated form the era of Dutch colonial administration, to a self-assessment system. From this time frame, the age of the modern Indonesian tax system is a relatively short 30 years. It is significantly younger than that of developed countries with long histories of taxation such as in the UK and the US where income tax was first

introduced in 1798 and 1894 respectively (Samson 2002, 35, 37). Consequently, research on the tax compliance costs in Indonesia is well behind those of developed countries. For example, the first compliance costs study in England was 36 years ago in 1978 for VAT (Sandford, Godwin, and Hardwick 1989, 57), in the US 29 years ago in 1984 (Blumenthal and Slemrod 1995, 143) and in Australia 27 years ago in 1986/87 (Pope, Fayle, and Duncanson 1990).

The lateness of compliance costs studies in Indonesia is, however, comparable to those in other Asian countries. For example, compliance costs studies "have been long ignored" in Malaysia as noted by Jabbar (2009, 42), noting that before his research, there are only four studies on the compliance costs, starting in 1995 (Loh et al.). The starting time for such studies does not differ much in other countries, such as in Singapore in 1994 (Ariff, Loh, and Talib), Hong Kong in 1999 (Chan et al), and India 1995 (Das-Gupta, Lahiri, and Mookherjee).

The prior research in Indonesia by Prasetyo was undertaken in 2006. The population of the survey is all 339 companies registered in the Indonesia Stock Exchange (IDX). The questionnaire was sent to all 339 companies in the population and the usable response is 250, showing a response rate of 74 per cent. The comparison between this prior and present research is presented in Table 7.1.

Table 7.1: Comparison between the Prior and Current Research

Aspects	Prior research by Prasetyo*	Present research
Year researched	2006	2010
Objectives	The effects of perception uniformity and size of company on compliance costs	Magnitude and nature of compliance costs
Population	Public companies listed on the IDX	Large companies registered in LTO and MTO
Population	339	28,681
Number of sample	339	3,000
Usable sample	250	246
Response rate	74%	8%
Method	Survey	Mail survey

Note: *This second column is taken from Table 2.1 in Chapter 2.

Four years separate the prior research and the current research. Both research studies deal with compliance costs of large taxpayers with the prior research investigating two factors that affect the compliance costs, namely the perception, uniformity and the size of companies, while the current research attempting to quantity the compliance costs and to analyse the features of the costs. The population of the prior research is a subset of the

whole population of the current research, because the companies registered on the IDX in the former research also fall into the category of large taxpayers in the latter research. Subsequently, the number of companies and the number in the sample in the prior research are significantly lower than the present research, at 339 and 339 compared to 28,681 and 3,000, respectively.

The usable sample for both research studies are incidentally almost the same with 250 for the prior research and 246 for the current research. Despite this similarity, there is stark difference in the response rate. The prior research has an outstanding response rate of 74 per cent compared to eight per cent in the current research, but unfortunately, in the prior research it is not discussed what strategies were undertaken to achieve that remarkable response rate.

Regarding the response rate, the remarkably high 74 per cent of response rate for public companies is significantly higher than other research on the compliance costs of public companies, such as 17 per cent in Australia (Pope, Fayle, and Chen 1991), 33 per cent in Singapore 1994 (Ariff, Loh, and Talib 1995), 16 per cent in Malaysia (Loh et al. 1995), 26 per cent in Singapore 1996 (Ariff, Ismail, and Loh 2002) and 15 per cent in Hong Kong (Chan et al. 1999).

The prior research shows that the estimated compliance costs are in accordance with the size of the company; the larger the size, the greater the compliance costs, as shown in Table 7.2.

Table 7.2: Estimated Compliance Costs in the Prior Research by Prasetyo (2008)

Annual sales (USD million)	Number of companies	Compliance costs (USD million)
3–10	16	<0.004
11–50	52	0.004–0.21
51–550	115	0.22–0.55
560–5,490	62	0.56–5.49
5,500–21,970	5	5.49–21.97

Source: Prasetyo (2008, 163).

In order to compare the prior research and the present, the classification of the group and the average compliance costs of the current research must be adjusted from IDR to USD, and the result is presented in Table 7.3.

Table 7.3: Estimated Compliance Costs in Current Research, Adjusted to USD

Annual Turnover, IDR	Annual Turnover, USD*	Average Compliance Costs, IDR	Average Compliance Costs, USD
Less than IDR3 billion	Less than 334,150	168,470,943	18,763
IDR3 billion–IDR10 billion	334,150–-1,113,833	193,615,370	21,565
IDR10 billion–IDR50 billion	1,113,833–5,569,169	250,174,464	27,865
IDR50 billion–IDR100 billion	5,569,169–11,137,098	464,515,251	62,876
More than IDR100 billion	11,137,098	631,478,239	70,328

Note: *The exchange rate used is from the IMF (International Monetary Fund 2013) where 1USD equals IDR8,978.

From Table 7.3 it can be seen that the grouping in the prior research uses greater band than that of this current research. For example, the largest category in this present research is companies with annual turnover of more than USD11 million, while in the prior research, the greatest category is the annual turnover of between USD5,500 million and USD21,970 million. Consequently, the comparable band between the current research and that of the prior research is the first band, that is, USD3-10 million in the prior research, and the third and fourth band in the current research, that is, USD1.1 million to USD11 million. The comparison between Prasetyo's research and present research is presented in Table 7.4.

Table 7.4: Comparison of Compliance Costs in Prior and Current Research

Aspect	Prior Research	Current Research Average
Turnover group, USD	3 million–10 million	1.1 million–11.1 million
Compliance costs, USD	4,602	9,362-21,126*

Note: *After the adjustments. Before the adjustments the compliance costs ranging from USD27,865–62,876.

The compliance costs in the prior research in the first band are less USD4,000, or USD4,602 after being adjusted for the inflation rate based on the IMF data (International Monetary Fund 2013). The current research shows average compliance costs of USD27,865 (third band) to USD62,876 (fourth band).

From Table 7.4 it is discovered that there is a significant difference in the amount of the compliance costs between the prior research (USD4,602) and the current research (between USD27,865 and USD62,876). Upon further investigation, it is learned that there is a difference in the definition used for the term compliance costs. The term compliance costs in the prior research is defined as cash money, that includes the expenditures for "tax form, tax documents photocopies, transportation, tax consulting, tax education and

training, document storing, commitment fee, and entertainment."[14] From the prior research's definition in the questionnaire, there is no mention about the salary of staff managing tax in the company; the only payment for personnel is "tax consultation". In the present research, the costs include payment of salaries to staff.

After excluding the staff salary, the compliance costs in the current research is comparable to that in the prior research. As reported in Section 5.4.1, the estimated total average costs are IDR420 million. The payment for staff salaries is IDR278.91 million, which is the summation of the following costs: IDR201.64 million for routine staff, IDR71.27 million for time value, IDR1.33 million for tax return—staff, IDR2.15 million for tax audit—staff, IDR1.85 for tax objection—staff and IDR0.67 for appeal—staff. The percentage of staff salaries in the compliance costs is 66.4 per cent, which is IDR278 million divided by IDR420 million. Excluding this, the adjusted compliance costs are between USD9,362 and USD21,126. While the current research figures are more than twice that of prior research, in nominal terms the difference is between USD4,760 and USD16,524 per year, which is not considered high for a large company with the turnover between USD1.1 million and USD11 million. Overall, the compliance costs, both in the prior and current research, are comparable.

7.2.2 International Comparison

Comparison on the Estimated Compliance Costs

A leading expert in the compliance costs study, Sandford (1995, 405) warns that international comparisons could be misleading rather than enlightening for a number of reasons, such as the difference in the quality of data collected, the basis of the comparison (e.g. compliance costs compared with tax revenue or other ratios), the difference in tax structures, taxpayer populations, tax rates, revenue fluctuations, and tax gaps in each country. He suggests that international comparison would be better conducted by an international organisation (e.g. OECD) using uniform measurements and who is able to collect relevant data such as the tax rate and the administrative costs in all countries being compared.

[14] This definition is found in the attached questionnaire of the prior research.

Nonetheless, a number of researchers have undertaken international comparisons, particularly where there is a degree of similarity between the countries being compared. For example, Erard (1997) compares the costs in Canada and in the US because both are related to the same kind of taxpayers (i.e. large business taxpayers) and the same type of tax (i.e. income tax). Pope, Fayle, and Chen (1991) compare compliance costs of public companies in Australia with the compliance costs of corporate taxpayers in the UK because the result in the UK is the only available result for corporations at that time, in addition to the similarities in the number of usable responses and the universal coverage (40). In Asia, Loh et al. (1995, 105) compare compliance costs in Malaysia, Singapore, Australia, and the UK on the basis that all are concerned with companies' compliance costs. In addition, Cheung et al. (1999, 202) compare the results of research in Hong Kong to that of Singapore and Australia due to the fact that all are related to the income tax compliance costs of public companies. Ariff (2001, 261) compares the compliance costs of companies in Hong Kong, Malaysia and Singapore based on three groups based on size, namely small firms, medium-sized and large firms.

In undertaking the comparison, the researchers use different approaches. Pope, Fayle, and Chen (1991, 97–102), provide a detailed comparison between Australia and UK, including gross compliance costs, administrative costs, operating costs, cash flow benefits, the costs as a percentage of turnover, and the compliance costs in the absolute terms. Other researchers, without detailing the differences, offer explanations as to why the costs differ. For example, Erard (1997, 11–12) suggests that the lower compliance costs of large companies in Canada compared with that in the US is due to two factors, the difference in size of the companies and the differences in the corporate income tax structures in both countries (e.g. depreciation rules, complexity in the reporting of foreign tax credit, and the number of jurisdictions in which the corporate taxes must be paid). In Malaysia, Loh et.al (1995, 105) argue that the lower costs in Malaysia compared to those in Singapore, Australia and UK are due to the complexities of the tax systems in those countries, besides differences in the sample size. In Hong Kong, Chan et.al (1999, 202) imply that the higher costs in Hong Kong are caused by the more complex tax structure in that country compared with those in Singapore and Australia.

From the comparisons that have been undertaken, two factors emerge as to why the costs differ between countries, namely, the size of the companies and more importantly the complexity of the tax systems in respective countries. Regarding the latter, Evans (2012,

31) argues that tax compliance costs are the reflection of tax system complexity. While the size of the companies might be easier to investigate, the complexities in the tax system are a more complicated subject. Among the studies of the compliance costs of large taxpayers that undertake a comparison between countries, there is only one study, namely in Canada (Erard 1997) that elaborates the differences in the complexity of the tax structures in both Canada and in the US.

In order to compare compliance costs in Indonesia with those of other countries, a number of adjustments are needed. First, because the years being investigated are different between one country and another, a particular year is determined to be the base year and all other compliance costs in different years are adjusted to reflect the inflation rates from the investigated years to the base year. In this case, because the current research is investigating the compliance costs in Indonesia in 2010, the other years are inflation-adjusted to 2010 as well. The inflation rate used in each country is based on the figure published by the International Monetary Fund (2011). Second, because the costs calculated in each different country use different currencies, a particular currency is determined to be the base currency. Because the current research is undertaken in Australia, the base currency is therefore the Australian Dollar (AUD); the other currencies are converted into AUD using the official exchange rate published by the Reserve Bank of Australia (2013). Lastly, because the Indonesian compliance costs cover all type of taxes while in the other countries the costs only deal with the income tax, for this comparison the Indonesian costs are adjusted to that type of tax only, arriving at the figure of AUD12,892 which is 28 per cent of the total costs that are attributed to the CIT as discussed in previous sections[15]. The adjusted compliance costs per company are presented in Table 7.4.

From Table 7.4 it can be seen that the compliance costs for income tax in Indonesia is AUD12,892, which is the lowest among the others. Compliance costs in the US at AUD2.4 million stand in the first place, followed by Canada at AUD1.2 million and Australia at AUD609 thousand. All countries in Asia (Malaysia, Singapore, Hong Kong, and Indonesia) have comparable compliance costs at a level below AUD100,000. In regard to compliance

[15] Recall from Section 5.5.6, the proportion of the costs based on the type of taxes is 28%, 43%, and 29% for CIT, VAT, and WHT respectively. Consequently, from the total compliance costs of AUD46,043, the proportion would be AUD12,892, AUD19,798, and AUD13,352 for CIT, VAT, and WHT per year, respectively.

costs for all type of taxes, the Indonesian costs of AUD46,043 are also significantly lower than that of Australia of AUD2.8 million.

Table 7.4: Average Compliance Costs per Large Company in Selected Countries

Country	Year Researched	Compliance Costs In Year Researched (National Currency)	Inflation-adjusted Compliance Costs in 2010 (National Currency)	Inflation-adjusted Compliance Costs in 2010 (AUD)
US	1992	1,565,000	2,432,000	2,393,000
Canada	1995	925,112	1,230,880	1,210,662
Australia	1986/7	271,598	609,978	609,978
Malaysia	1994/5	68,836	99,858	31,865
Singapore 1994	1994	78,396	97,906	74,920
Singapore 1996	1996	54,615	66,138	50,611
Hong Kong	1995/6	346,483	363,842	46,037
Indonesia(income tax)	*2010*	*117,861,364**	*117,861,364**	*12,892**
Australia (all taxes)	2013	3,008,000**	2,792,950**	2,792,950**
Indonesia(all taxes)	*2010*	*420,933,442***	*420,933,442***	*46,043***

Note: *This is the compliance costs for CIT only (VAT and WHT not included), based on the proportion of the costs based on the type of taxes discussed in previous sections. **Compliance costs for all taxes. Source: author's calculation and research in respective countries (Slemrod and Blumenthal 1996; Erard 1997; Pope, Fayle, and Chen 1991; Ariff, Ismail, and Loh 2002; Ariff, Loh, and Talib 199; Cheung et al. 1999; Loh et al. 1995). The calculation of inflation-adjusted compliance costs in 2010 (National currency) is based on the inflation data from the International Monetary Fund (2011). The calculation of inflation-adjusted compliance costs in 2010 (AUD) is based on the exchange rate data from the Reserve Bank of Australia (2013). The calculation of Australian inflation from 2010 to 2013 is obtained from the Reserve Bank of Australia at http://www.rba.gov.au/calculator/annualDecimal.html, 19 February 2014.

There are two factors influencing the differences in the compliance costs for large companies, namely the size of the companies and the complexity of tax structures in different countries, as suggested by Erard (1997, 11–12). A convenient way to compare the size of large companies in different countries is comparing the size of the economy (GDP) in each country, and the results show that there is a correlation between the size of economy and the compliance costs, as presented in Table 7.5.

It can be seen from Table 7.5 that the US with its more than AUD14 billion economy which is the largest among the above countries, has also the greatest compliance costs, followed by Canada as the second biggest economy with the second biggest compliance costs and Australia as the third economy size and costs. Malaysia, Singapore, and Hong Kong with similar sized economies, have comparable compliance costs as well. Indeed, when tested with the correlation coefficient, the GDP and compliance costs in the countries above have the correlation of 0.91, suggesting that the bigger the size of the economy of a country, the greater the tax compliance costs of its large companies.

Table 7.5: GDP and the Compliance Costs

Country	GDP 2010, USD billion	Inflation-adjusted Compliance Costs in 2010, AUD
US	14,657.80	2,393,000
Canada	1,574.05	1,210,662
Australia 1986/87	1,235.54	609,978
Malaysia	237.96	31,865
Singapore 1994	222.70	74,920
Singapore 1996	222.70	50,611
Hong Kong	225.00	46,037
Indonesia	706.74	*12,892*

Source: International Monetary Fund (2011), Table 1.

While the size of the economy might suffice to explain the differences in the compliance costs, it is interesting to note that despite the fact that the comparison in size of the economy (GDP) between Australia and Indonesia is less than 2:1 (i.e. USD1,235 billion compared to USD706 billion), the compliance costs in Australia are more than 47 times that of Indonesia (i.e. AUD609,968 compared to AUD12,892). This is related to the actual size of the companies in the sample of the research.

The effect of the size of the companies in the sample in the research on the compliance costs of large companies is first noted by Erard (1997, 11), concluding that the bigger sample in the US leads to the relatively larger compliance costs compared to Canada. It seems true as well in that the larger size of companies in the samples in the US, Canada, and Australia lead to the bigger compliance costs compared to Indonesia. In the US, from a total sample of 365 companies, as many as 271 can be identified into a size of sales range in which only 24 companies or 8 per cent have sales of less than USD268 million (AUD263 million at the 2010 exchange rate); the other 247 companies (92%) have turnovers of more than that (Slemrod and Blumenthal 1996 Table 1, 417). In Canada, the average size of the companies in the sample is $2.9 billion (AUD2,852 million at the 2010 exchange rate) in sales for non-financial companies and $5.3 billion (AUD5,212 million at the 2010 exchange rate) for financial companies (Erard 1997, 3). In Australia 35 per cent of the companies in the sample have annual turnovers of less than AUD5 million (Pope, Fayle, and Chen 1991 Table 3.6, 26). In Indonesia, 62 per cent of the sample has turnover of less than AUD10.94million. The size of the Australian companies is large as well, with 36 per cent

having an annual turnover of AUD1 billion to AUD5 billion, 40 per cent with AUD250 million to AUD1 billion, and 24 per cent AUD5 billion to AUD20 billion.[16]

Returning to the comparison between Australia and Indonesia, in order to analyse the vast difference in the compliance costs between Australia and Indonesia despite the relatively similar size of GDP, a closer look into the size of the companies in the samples seems to be needed. The difference in companies' size is presented in Table 7.6.

Table 7.6: Size of the Companies in Australia and Indonesia

Australia 1986/87			Indonesia			
Annual turnover (AUD m)	Number of Companies	%	Annual turnover		Number of Companies	%
			IDR b	AUD m		
<5	107	35	<3	<0.33	6	2
5–20	58	19	3–10	0.33–1.1	39	16
20–50	40	13	10–50	1.1–5.5	68	28
50–100	20	7	50–100	5.5–10.94	40	16
More than 100	77	26	>100	>10.94	93	38
Total	*302*	*100*	*Total*		*246*	*100*

Source: Australian data is from Pope (1991, 26).

From Table 7.6 it can be seen that in Australia, only 107 companies (35%) have turnovers less than AUD5 million, while in Indonesia 113 companies or 46 per cent have a turnover less than AUD5.5 million. Only 38 per cent of the sample in Indonesia have turnovers of more than AUD10.94 million while in Australia 58 per cent of the sample have turnovers of more than AUD10 million.[17] In addition, as many as 26 per cent of the sample in Australia have turnovers of more than AUD100 million or an equivalent of IDR10.94 trillion compared to only 4 per cent in Indonesia.[18] Based on those three comparisons, it is apparent that the size of companies in Australia is significantly larger than that in Indonesia and that might explain why the compliance costs of large companies in Australia is also significantly larger than that of large companies in Indonesia.

[16] It should be noted here that the latest research in Australia (Evans, Lignier et al. 2013) is not compared because the size of the companies is considerably greater than that in current research, due to the fact that less than ten per cent of the respondents have an annual turnover of under AUD250 million (Evans, Lignier, and Tran-Nam 2013,17).

[17] It is assumed that proportionally (due to the absence of detailed turnover of each company) two-thirds of the companies in AUD5m-20m category have turnover of more than AUD10m.

[18] Again, if it is assumed that one-tenth of companies under the turnover category of more than AUD10.94 do have more than AUD100m, the number of such companies is only 9, or 3.78% of the sample

There is also a factor that might affect the compliance costs, namely, differences in the wage rate. The reason behind this is that in a hypothetical scenario where there are two countries having the relatively same complexity of the tax system, one company in one country might hire the same number of staff to manage their taxes as the other company from the other country, yet the compliance costs for both companies could be different because of the different wage rate in those countries. This analysis is undertaken to hinder the notion that the compliance costs are merely a reflection of the complexity of a particular tax system. In order to further analyse the difference in the compliance costs between Indonesia and Australia, the components of the costs in both countries are compared, as shown in Table 7.7.

Table 7.7: Components of the Compliance Costs in Australia and Indonesia, 2010

Aspects	Australia 1991		Indonesia		
	In year researched, AUD	% of compliance costs	2010 IDR	2010 AUD	% of compliance costs
Total Compliance costs	271,694	100	420,933,442	46,044	100
Internal costs	124,285	46	307,909,052	33,681	73
External costs	147,409	54	113,024,390	12,363	27
Internal—staff	106,764	39	278,914,594	30,509	66
Internal—others	17,521	6	28,994,458	3,172	7

Source: Pope, Fayle, and Chen (1991, 64), Section 5.52.

From Table 7.7 it can be seen that the components that do not involve human resources, that is, categorised as "internal—others" in Table 7.7, are six per cent in Australia and seven per cent in Indonesia. This means that 94 per cent of the costs in Australia and 93 per cent in Indonesia are paid to either internal staff or external experts. Because the vast majority of the costs are the payment for salaries or fees, it is imperative to compare the rates of these in each country.

Wage rate data from both countries suggest that the difference in wage rates leads to the difference in the compliance costs that are dominated by payment for staff salaries or consultants fees. According to the OECD (2012), the annual wage rate in Australia in 2010 is USD43,908. The average wage rate in Indonesia according to the Indonesian Central Bank (2013) in 2010 is IDR2,092,667 per month, or IDR25,112,000 per year, an equivalent of USD2,791. From these figures, it can be seen than the average wage in Australia is more than 15 times (i.e. USD43,908 divided by USD2,791) that of Indonesia.

Regarding the comparison of the compliance costs between Indonesia and other Asian countries, from Table 7.5, it can also be seen that while the GDP of Indonesia is significantly bigger than that of other Asian countries, the Indonesian compliance costs are below that of other Asian countries. Again, the size of the companies in the sample might explain this irregularity with the following line of reasoning.

The sizes of companies responding to the Asian surveys are divided into three groups. The first group is companies that have turnovers of less than one hundred million in local currencies. The next group have turnovers of 100 to 500 million in local currencies (Malaysia, Singapore 1994 and 1996), except in Hong Kong from 100 to 550 million. The last group is accordingly having more than 500 million sales, except Hong Kong where it is 550 million.

The size of the companies in the survey in Indonesia and other Asian countries is not readily comparable because when translated into the same currency, in this case in AUD millions, the categorisations vary widely. In Indonesia, the smallest group is for companies with less than AUD0.33 million sales while in other countries, after inflation and exchange rate adjustments, it is under AUD46 million in Malaysia (Loh et al. 1995 p. 98), AUD95 million in Singapore 1994 (Ariff, Loh, and Talib 1995 212), AUD 92 million in Singapore 1996 (Ariff, Ismail, and Talib 2002, 243), and AUD 13 million in Hong Kong (Cheung al. 1999, 185). The largest companies in Indonesia is grouped in the more than AUD10.94 million turnover category, while in other countries, the biggest companies are grouped in a more than AUD231 million turnover category (Malaysia), AUD477 million (Singapore 1994), AUD463 million (Singapore 1996), and AUD 73 million (Hong Kong).

Nevertheless, the comparison could be attempted and it suggests that indeed the size of the companies in Indonesia is significantly smaller than that of other countries. For example, 38 per cent of companies in the Indonesian survey have turnovers of more than AUD10.94 million. In Malaysia, 50 per cent of the companies have turnovers of more than AUD46 million, while in Singapore 1994, 62 per cent of companies have more than AUD95 million sales and in Singapore 1996, 56 per cent of companies have turnovers of more than

AUD92 million, and in Hong Kong 86 per cent of companies have more than AUD13 million in sales.[19]

Similar to the Australia and Indonesia comparison, the wage rate is analysed as well. A comparison between compliance costs with wage rate in other Asian countries is more straightforward than in Australia-Indonesia case, because all the components of compliance costs in those countries consist of payment to own staff or external advisors and do not include other costs. For example, in Malaysia, computational costs consist of 73 per cent external fees and 27 per cent for staff salaries (Loh et al. 1995, 104); in Singapore 1994, 40 per cent of computational costs is payment for internal staff and 60 per cent for external advisors (Ariff, Loh, and Talib 1995, 217); in Singapore 1996 the composition is 44 per cent and 56 per cent for internal salaries and external fees (Ariff, Ismail, and Loh 2002, 237), respectively; and in Hong Kong it is 30 per cent for internal staff and 70 per cent for external advisors (Cheung et al. 1999, 189). The comparison of wages in Indonesia and those countries is presented in Table 7.8.

Table 7.8: Compliance Costs and Wage Rate in selected Asian Countries

Country	Compliance Costs, AUD	Daily wage rate, USD
Malaysia	31,865	9.8
Singapore 1994	74,920	55.2
Singapore 1996	50,611	55.2
Hong Kong	46,037	28.9
Indonesia	12,892	4.2

Source: Author's calculation based on Runckel (2013).

From Table 7.8 it can be seen that the daily wage rate in Indonesia (USD4.2 per day) is the smallest among other countries. It is significantly below than in Malaysia (USD9.8) and overwhelmingly below than Hong Kong (USD28.9) and Singapore (USD55.2). This low wage might explain why the compliance costs in Indonesia are relatively low compared to other Asian countries, in addition to the smaller size of the companies in the sample.

[19] Had the groups in the lowest turnover category in other countries been modified into smaller groups (e.g. under AUD 10 million, AUD10–AUD50 million, and AUD 50–100 million), the disparity of the companies' sizes could have been more apparent. Unfortunately, the available data do not enable the current researcher to do this.

Comparison of the Components of the Compliance Costs

The comparison of internal costs and external costs for developed countries and Indonesia is presented in Table 7.9.

Table 7.9: Breakdown of the Compliance Costs of US, Canada, Australia and Indonesia

Aspects	US	Canada	Australia 1986/87	Australia 2013	Indonesia
Internal vs. external costs, %	85:15	80:20	46:54	66:34	73:27
Internal costs: staff vs. non-staff, %	58:42	69:31	86:14	70:30	91:9
Computational vs. planning costs, %	70:30	38:62[a]	42:58	74:26	73:27
Computational costs: internal vs. external, %	83:18	71:29[b]	63:37	71:29	89:11
Planning costs: internal vs. external, %	71:29	58:42	33:67	50:50	88:12

Note: a. Included in the computational costs is keeping records and filing, and the costs for audit, appeal, and litigation. B = author's calculation.

A number of inferences could be drawn from Table 7.9. First, for the composition based on the source of expense (i.e. internal and external), Indonesia is comparable with the US, Canada and Australia 2013 in which internal costs are greater than external costs with the composition of 73:27 compared with 85:15 in the US, 80:20 in Canada and 66:34 in Australia 2013. The only different composition occurs in Australia 1986/87 where the external costs are greater than internal costs with the composition of 46 per cent compared to 54 per cent. Looking deeper into what contributes to the internal costs, payment for staff dominates them, with the Indonesian companies paying 91 per cent of the internal costs to their staff with only nine per cent to other costs such as stationeries or utilities. While all the composition in the countries in the comparison is dominated by staff salaries, this percentage in Indonesia is higher than in developed countries, where the composition is 86:14 in Australia 1986/87, 70:30 in Australia 2013, 69:31 in Canada and 58:42 in the US.

Second, the objective of the expenditures in Indonesia is mainly for computing the taxes, with almost three-quarters (73%) compared to 27 per cent for planning purpose. This composition is similar to that in the US and Australia 2013. However, this is not the case in Canada and Australia 1986/87 where the computational purpose is smaller than the planning purpose with proportions of 38:62 and 42:58, respectively.

In undertaking the computation of taxes, all countries depend more on internal staff than external advisors. The proportion ranges from 63 per cent in Australia 1986/87 to 89 per cent in Indonesia. However, when dealing with tax planning, only Australia 1986/87 shows that it depends more on external advisors than internal staff with the composition of 33 per cent internal staff and 67 per cent external advisors. Indonesia has the highest rate of using internal staff to undertake tax planning with a contribution of 88 per cent of the costs compared to the US with 71 per cent and Canada with 58 per cent. Meanwhile in Australia 2013, the composition is balanced between the internal and external costs.

Interestingly, while the components of the Indonesian compliance costs are commonly comparable in composition with the developed countries (i.e. the US, Canada, and Australia), they are significantly different from the other Asian countries, as shown in Table 7.10.

Table 7.10: Breakdown of the Compliance Costs in Asian Countries

Aspects	Malaysia 1994/5	Singapore 1994	Singapore 1996	Hong Kong 1995/6	Indonesia 2010
Internal vs. external costs, %	28:72	42:58	42:58	30:70	73:27
Internal costs: staff vs. non-staff, %	n/a	n/a	n/a	n/a	91:9
Computational vs. planning costs, %	61:39	51:49	50:50	74:26	73:27
Computational costs: internal vs. external, %	27:73	40:60	44:56	29:71	89:11
Planning costs: internal vs. external, %	30:70	44:56	39:61	33:67	88:12

Note: The composition of the costs in the countries other than Indonesia could change over time. These are the only available data for large companies in those countries.

From Table 7.10 it can be seen that the proportion of internal costs in Indonesia is greater than the external costs at 73 per cent and 27 per cent respectively, while in Malaysia, Singapore, and Hong Kong the proportion is reversed with the external components contributing more than internal components with varying degrees. The internal cost in Indonesia is hugely dominated by staff salaries, which contribute 91 per cent of total internal costs. In Malaysia, Singapore, and Hong Kong, all internal costs are all staff costs; no other costs (e.g. stationery, utilities) are reported in this expenditure.

Regarding the purpose of the expenditures, Indonesian companies spend the money for the purpose of tax computation more than for tax planning, and the same applies to other countries as well. In Indonesia, the computational objective dominates the expenditures

with a 73 per cent contribution, with other countries range from 50 per cent (Singapore 1994) to 74 per cent in Hong Kong. However, the way the companies undertake the tax computation in Indonesia is different from that of other countries in the region. In Indonesia, tax computation is mainly undertaken by the internal staff with the average contribution of 89 per cent of the cost, while in other countries the activity is mostly undertaken by the external advisors. This is in line with the finding above that the compliance costs in Malaysia, Singapore, and Hong Kong are dominated by the costs for external advisors.

From all research regarding the compliance costs for large companies, only three studies attempt to compare the costs between the sectors, namely in the US, Canada, Hong Kong, and the current research in Indonesia. The results are presented in Table 7.11.

Table 7.11: Compliance Costs Based on Sectors in Selected Countries

Aspects	USA	Canada	Hong Kong	Indonesia
Highest costs	Mining	Mining, oil, and gas	Financial and investment	Retail and wholesale trade
Lowest costs	Wholesale and retail trade	n/a*	Manufacture	Mining and extraction

Note: *The sector with the lowest compliance costs in Canada is not defined because the difference among sectors in Canada is not significant except for the mining, oil and gas sector (Erard 1997, 6).

From Table 7.11 it can be seen that there is no common finding in the relationship between the costs and the sectors. In the US and Canada the mining (including oil and gas) sector stands as the sector with the highest compliance costs while in Hong Kong it is financial and investment companies, while in Indonesia it is the retail and wholesale trade sector. In the lowest costs category, in the US it is the wholesale and retail sector, while in Hong Kong it is the manufacturing sector, and in Indonesia, it is the mining and extraction sector. However, it should be noted that comparing between sectors has to be done carefully because of possible differences in size among companies in the sectors being compared, as warned by Slemrod and Blumenthal (1996, 422). In the case of Indonesia, as could be recalled from previous sections, the retail and wholesale trade sector has more companies (17) in the biggest category of turnover, while the mining sector has two companies in the same category; hence, the difference in the overall compliance costs between those two sectors.

All research in those countries suggests that compliance costs are regressive in terms of the size of the company. The bigger the company, the smaller the compliance costs per dollar turnover or asset.

As in the case of the sectors, there are also a number of aspects that are investigated in some countries and not in other countries. For example, there is a comparison between the types of tax the money is spent in the US (70% for federal taxes and 30% for local taxes); while there are no figures in other countries. Understandably, there is no distribution of the costs among several types of taxes because all research is dealing with income tax, except for the current research in Indonesia which is related to all types of taxes (CIT, VAT, and withholding taxes). The magnitude of total compliance costs as a percentage of tax revenue is investigated in the US, Canada, Australia, Malaysia, and Indonesia; and not in Singapore and Hong Kong. The proportion of compliance costs compared to GDP is only considered in Australia and Indonesia. The comparison between compliance costs, tax revenue and GDP in selected countries is presented in Table 7.12.

Table 7.12: Magnitude of Compliance Costs in Selected Countries

Aspects	USA	Canada	Australia 1986/87	Malaysia	Indonesia
Compliance costs* as % of tax revenue	3.2	4.6–4.9	11.4-–3.7	0.36	3.16
Compliance costs as % of GDP	n/a	n/a	0.25–0.53	n/a	0.19

Note: * gross compliance costs

From Table 7.12 it can be seen that tax compliance costs as a proportion of tax revenue ranges from 0.36 per cent in Malaysia to 11.4 to 23.7 per cent in Australia, with Indonesia in the low range of 3.16 per cent. It also can be seen that as percentage of GDP, tax compliance costs in Indonesia is lower than that of Australia at 0.19 per cent and 0.25–0.53 per cent, respectively. The latter could be explained in that with the relatively same national compliance costs (Australia AUD1,341 million in 1986/87 and Indonesia AUD1,343 million in 2010), GDP in Australia in 1986/87 is far less than that of Indonesia in 2010 (Australia AUD261,490 and Indonesia AUD702,472 million).

Finally, there are only three research studies, namely, in the US, Australia 1986/87 and Indonesia, that calculate the gross national compliance costs, with the cash flow benefits, and the net compliance costs for the last two countries, as presented in Table 7.13.

Table 7.13: Gross and Net Compliance Costs in Selected Countries

Aspects	USA	%	Australia 1986/7	%	Indonesia	%
Gross compliance costs*	3,136	n/a	3,011	100	1,343	100
Cash flow benefits*	n/a	n/a	2,142	71	317	24
Tax deductibility benefits*	n/a	n/a	n/a		333	25
Net compliance costs*	n/a	n/a	869	28	693	52

Note: * Inflation and exchange rate adjusted to 2010 AUD million.

From Table 7.13 it can see that after being adjusted for inflation and exchange rates, national gross compliance costs in the US is AUD3,136 million, slightly larger than that of Australia at AUD3,011 million, and considerably larger than in Indonesia at AUD1,343 million. While it may seem that the national compliance costs in the US and Australia only differ slightly, it must be noted that the research population varies greatly. In the US, the population number is 1,329 companies (Slemrod and Blumenthal 1996, 411), while in Australia it is 21,283 (Pope, Fayle et al. 1991 p. 88). Likewise, it could not be deduced directly that the gross national compliance costs in the US are only 2.33 times that of Indonesia despite the fact that the GDP in the US is more than 20 times that of Indonesia (data from Table 7.5). One has to take into consideration that the US has smaller population number than Indonesia, at 1,329 and 28,681 companies respectively.

Comparison of the Allocation of the Compliance Costs

The allocation of the costs in Indonesia is 28 per cent, 43 per cent and 29 per cent for CIT, VAT, and WHT respectively. This allocation cannot be compared directly with similar research on large corporations because all of those deal only with the income tax, except with Australia 2013. There are a number of research studies, namely in the UK, the Netherlands , Australia 1995, and New Zealand, that investigate the compliance costs for all taxes and from the results, the allocation of the costs for each type of tax can br compared. The comparison with other countries in Asia cannot be conducted because the only other Asian country that has not been compared, namely India (Chattopadhyay and Das-Gupta 2002), only deals with the income tax, not with other taxes.

In Australia 2013 (Evans, Lignier, and Tran-Nam 2013), based on the internal and external costs, the composition can be calculated and the results show that of all the compliance costs, 58 per cent is allocated to income tax, 14 per cent to the GST, and 29 per cent to other taxes.

In the United Kingdom 1986–1987 (Sandford, Godwin, and Hardwick 1989), compliance costs are also dominated by personal income tax (and Capital Gains Tax [CGT] and National Insurance Contributions [NIC]). From the total of the national compliance costs of GBP3,409 million, as much as GBP2,212 million for personal income tax, CGT, and NIC (GBP1,439 million is paid by individuals and GBP663 million is paid by the employers, among others), while GBP791 is for VAT, and GBP300 million is for corporate income tax (Sandford, Godwin, and Hardwick 1989, 109; Godwin 1995, 75). From these figures, it can be calculated that companies pay a total amount of GBP1,754 million, consisting of GBP663 million or 38 per cent NIC, GBP791 million or 45% VAT, and GBP300 million or 17 per cent income tax.

In the Netherlands (Allers 1994), for business taxpayers, the national compliance costs in 1989 are Gld7,200 million, of which Gld3,100 million is for payroll taxes, Gld2,100 is for VAT, and Gld670 million is for corporation tax (Allers 1995, 181). From these figures it can be calculated that companies pay a total amount of Gld5,870 million, with the proportion of 53 per cent payroll taxes, 36 per cent VAT, and 11 per cent corporation tax.

In Australia 1995 (Pope), total compliance costs in 1990–91 is AUD7,981 million, consisting of personal income tax of AUD3,642 million, AUD660 million employers' PAYE, AUD120 million employers' PPS, AUD3,246 million companies' income tax, AUD134 million employers' FBT, and AUD178 million WST (Pope 1995, 104). From these figures, it can be calculated that the companies pay an amount of AUD4,438 million consisting of AUD3,246 million or 73 per cent for income tax, AUD660 million or 15 per cent for employers' PAYE, AUD120 million or 3 per cent employers' PPS, AUD134 million or 3 per cent for employers' FBT, and AUD17 million or 4 per cent for WST.

In New Zealand 1990–1992 (Hasseldine 1995), compliance costs of companies are dominated by costs to comply with the income tax. For the national compliance costs for business taxpayers of NZD1,881 million, as much as NZD1,225 million or 65 per cent is allocated for business income tax, with the next highest proportion for the goods and services tax of NZD453 million or 24 per cent, and PAYE and fringe benefit taxes the remaining NZD195 million or 11 per cent (Sandford and Hasseldine 1992, 106).The allocation of the compliance costs for each country is presented in Table 7.14.

Table 7.14: Allocation of Compliance Costs in selected Countries

Country	Corporate income tax	VAT/Sales tax	Employees' taxes
UK	17	45	38
The Netherlands	11	36	53
Australia 1995	73	4	23
New Zealand	65	24	11
Australia 2013	58	14	29*
Indonesia	*28*	*43*	*29*

Note: *includes other taxes such as property tax and stamp duty. Source: author's calculation based on various sources (Godwin 1995, 75; Pope 1995, 104; Allers 1995, 181; Hasseldine 1995, 106; Evans, Lignier, and Tran-Nam 2013, 26, 29).

From Table 7.14 it can be seen that for corporate taxpayers there is no clear pattern in the allocation of the costs. In two countries, Australia (both in 1995 and 2013) and New Zealand, corporate income tax absorbs most of the costs, while in the UK, VAT dominates the composition, and in the Netherlands, it is mostly to comply with the employees' taxes paid by the companies. In Indonesia, the pattern is the same with that in the UK, where VAT ranks in the first place, followed by the withholding taxes, and the corporate income tax. The caveat here is that the companies investigated in other countries, except Australia 2013, are all sizes, in contrast with the Indonesian case which is related for large companies only.

Tax Compliance Costs and the Complexity of Tax Structures

In order to analyse the difference in the complexity of tax structures in the US, Canada, Australia, Malaysia, Singapore, Hong Kong, and Indonesia, a closer look at each structure is required; however, it is not in the scope of this current research, especially for the countries other than Indonesia. In line with Sandford's suggestion that an international organisation should conduct this kind of study, there is indeed a study undertaken by the World Bank/International Finance Corporation titled Paying Taxes 2013: The Global Picture, which contains the comparison of tax systems in 185 countries in the period from 2004 to 2011.[20]

Among the findings of the research by the World Bank, there are overall rankings of the easiness of paying taxes, the number of tax payments in one year, the needed time to

[20] Even though this survey measures the ease of paying taxes for small and medium size companies (The World Bank and PwC 2012, 11), the results of this survey could also reflect the ease of paying taxes for large companies as well with the assumption that if a particular tax system is viewed as complex for small business, it is complex as well for large business, and vice versa

comply for all type of taxes, and the tax rates of each country. The indicators for the US, Canada, Australia, Malaysia, Singapore, Hong Kong and Indonesia are presented in Table 7.15.

Table 7.15: Country Ranking on Tax Complexity in Selected Countries

Country	Overall ranking of easiness	Number of payments, all taxes	Total hours to manage all taxes	Tax rates, total taxes
US	69	11	175	46.7
Canada	8	8	131	26.9
Australia	48	11	109	47.5
Malaysia	15	13	133	24.5
Singapore	5	5	82	27.6
Hong Kong	4	3	78	23
Indonesia	131	*51*	*259*	*34.5*

Source: The World Bank (2012, Tables 1–4, 146–156).

Table 7.15 indicates that paying taxes in Indonesia is more complicated than other countries in the comparison. This is shown by the overall ranking of easiness to pay taxes where Indonesia sits in the lowest place among those countries above. Also, the number of tax payment in Indonesia is the most compared with those in the others. The time needed to comply with taxes in Indonesia is the highest as well. The highlight here is that the total tax rate for all types of taxes in Indonesia is not the highest; it is still below that of the US and Australia, according to the World Bank.

Overall, despite the fact that the Indonesian tax system is the most complex compared to other countries according to the World Bank (2012) as illustrated in Table 7.15, the compliance costs in Indonesia are the smallest. This indicates that two other factors, namely, the size of the companies and the low wage rate, contribute more to the low compliance costs than the complexity of the tax structure in Indonesia.

7.2.3 Comparison on Attitudes towards Tax System

As discussed in previous sections, the attitude being investigated in this current research and asked in the questionnaire is related to the tax reform that has been implemented by the Indonesian tax administration. Specifically, respondents are asked to express their level of agreement on 17 statements regarding the change that has taken place during the last couple of years on the tax administration in general, the tax offices where the taxpayers are registered, and the AR with whom the taxpayers communicate their tax matters. This is supplemented by in-depth interviews with eight separate tax managers from different

companies and a focus group discussion with eleven tax managers from different companies. The combined results from those two different activities could be summarised into two groups, namely the positive aspects of the current tax administration, and the aspects that still needs to improve.

The positive aspects of the current tax administration in Indonesia include the overall improvement in the tax administration's human resources, systems and procedures, and information technology; the easier contact with the tax offices through the Account Representatives; the improved competence of tax auditors; and the fairer process regarding tax audit findings. In addition, the tax administration is viewed as less corrupt than before.

The areas that need improvement include the lack of technical competence of certain tax officers with whom the taxpayers liaise; the tighter supervision that puts more pressure on the taxpayers; the overly conservative tax auditors who are reluctant to admit during tax audits that the taxpayers have correctly filled the tax returns; the lengthy procedures to seek proper rulings; the perceived biased decisions on tax objections that favour the tax office; and the inconsistency of a number of rules.

The comparison of the attitudes among different countries is somewhat problematic because the questions and the method used are different from country to country. In this current research this is undertaken during the interview and discussion with taxpayers and tax consultants while in other countries they are done at the same time as the data collection process. With the latter approach, the quantification of the results (e.g. percentage of the taxpayers who agree on certain issues) could be undertaken. Conversely, the first method enables the subjects (taxpayers or tax consultants) to elaborate the points, despite the absence of quantitative measurement. The questions asked are also different. In Indonesia the questions centre on the difference in the situation before and after the tax reform, while in other countries, the questions are related to the current situation where the research takes place.

Nevertheless, the comparison can still be offered. For example, international transactions rank third in the biggest contributor of the costs, below the depreciation and the AMT in the US (Slemrod and Blumenthal 1996, 428–9). This view is also shared by the Indonesian taxpayers who also complain that the new requirement on the reporting of international transactions with affiliated companies (i.e. transfer pricing documentation) could increase

the compliance costs by IDR100–200 million, or one-third of the average compliance costs of large companies who are engaged in such transactions. Conversely, the depreciation rules and the non-conformity of taxable and book incomes that are the sources of the difficulty in the US, are rarely mentioned in the interview and discussion in Indonesia; showing that those two aspects are not significantly worrying.

The situation in Indonesia in 2010 is similar to that in Canada in 1995. In Canada the biggest problem is the complexity of legislation, followed by the audits and appeals process, the foreign reporting rules (similar to the transfer pricing documentation as mentioned in the above paragraph), number of forms/level of details required, and the deviations from accounting rules (Erard 1997, 16). Also comparable to Indonesia, the improvement of the process of audit and appeal is also suggested by taxpayers in Canada (Erard 1997, 17).

The common suggestion for tax administration is simplification. In Australia the study finds that just above half of respondents find varying degrees of difficulty in completing their income tax returns, and a quarter of respondents state that tax simplification or tax code rewriting is preferred. In Singapore half of respondents say the same (Ariff, Loh, and Talib 1995, 222). In Indonesia, the same theme is also voiced during the interview and discussion. In Hong Kong, broader suggestions are offered, including better communication, improved efficiency, more synchronising of tax system with business environment, more guidelines, and the creation of a special division in the tax administration to handle foreign transactions (Chan et al. 1999, 67). The first four are suggested in Indonesia as well. There is no investigation in Malaysia regarding the attitude toward tax administration.

7.3 Tax Administration Reform

7.3.1 Tax Administration Reform in the Domestic Context

Indonesia has implemented a number of tax reforms. The first tax reform implemented in Indonesia was in 1983–1984 and was driven by “out-dated, complicated and unproductive taxes adopted several decades earlier” (Gillis 1985, 221), and viewed as “radical” (Heij 2001, 233). It covered the simplification of tax laws, the establishment of a computerized system, and a change in tax procedures. There were five new tax laws introduced namely Income Tax Law, Value Added Tax Law, Land and Building Tax Law, Stamp Duty Law, and

General Provisions and Tax Procedures Law to substitute the old and complex tax laws; many were inherited from the era of the Dutch colonisation. The new computerized system was installed to handle master tax files, and to monitor and to accelerate the process of tax payments. The new procedures were implemented to simplify, clarify and update the previous procedures that were somewhat complicated for taxpayers (Gillis 1989).

From the first introduction in 1983–1984, there have been a number of tax reforms involving both administration and policy aspects. Included in the administration aspects is the change in the organisation structure with the establishment of separate tax audit offices which were previously part of tax service offices. The amendments to tax policy include four amendments to the Income Tax Law (in 1991, 1994, 2000 and 2009) and three each for the VAT Law (in 1994, 2000 and 2008) and General Provision Law (in 1994, 2000, and 2007). The last reform that was undertaken in 2002–2008 is on the administrative aspects of the Indonesian tax system.

The Indonesian tax administration reform in 2002–008 could be viewed as a major reform for a couple of reasons. First, the amendments of the main tax laws (Income Tax Law, VAT Law, and General Provision Law), are enacted gradually over the course of several years and cover only minor parts of the preceding laws. Second, the administration aspects of the tax system had never been overhauled before the 2002–2008 reform. For example, the organisation structure had been based on the type of taxes for both the headquarters office and the operational offices prior to 2002. Also, the segmentation of taxpayers had been mainly based on their location rather than their size. As discussed in the previous section, the administration reform of 2002–2008 covers four main aspects of the Indonesian system, namely organisation, business process, human resources management, and governance.

7.3.2 Tax Administration Reform in International Context

In order to analyse how the Indonesian tax administration reforms fare with the reforms in other countries, a number of aspects could be investigated, namely the triggers of the reform, the goals, the timing, the scope and the effectiveness. The trigger of the tax

administration reform in Indonesia, as discussed in the earlier part,[21] is the ineffectiveness nd inefficiency in the DGT. This is indicated by weak legal and governance frameworks, inadequate organisational structure and staff, poor service and enforcement programs, and out-of-date information systems (Brondolo, Silvani et al. 2008, 14). Generally, tax administration reform needs to be implemented if the administration is not effective, with the tax gap being one of its main indicators (Silvani and Baer 1997, 5). In the Indonesian current reform, as indicated in the previous section, it is not only the demand for more tax revenue but also the need to improve public trust in the government. The latter reason is intensified by the fact that before the reform, Indonesia experienced a deep economic recession with poor governance and corruption being one of the causes (Hill 1999, 47).

The goals of the Indonesian tax administration reform do not differ greatly from those of other countries. In Middle Eastern countries, revenue administration reform (for it is not only the tax administration but also the customs administration) that started in the 1990s (Crandall and Bodin 2005, 9) had a goal of creating an effective and efficient revenue administration, similar to the reform in the Francophone countries of Sub-Saharan Africa since 1995 (Fossat and Bua 2013) and in Anglophone Africa in the 1990s (Kloeden 2011).

Regarding the time of the implementation of tax administration reform, Indonesia seems to be behind. While in Indonesia it started in 2001, in many developed countries the reforms began in the 1980s and 1990s, in Middle Eastern countries the serious efforts started in 1990 (Crandall and Bodin 2005, 9), in Anglophone Africa[22] since the early 1990s (Kloeden 2011, 8), and in the Francophone countries of Sub-Saharan Africa[23] in 1995 (Fossat and Bua 2013, 14).

The scope of tax administration reform in Indonesia, recalled from the previous section, covers organisational structure, human resources management, business process and corporate government. The cores of this reform are the establishment of functional-based organisations and segmented tax offices, the appointment of the ARs, the use of sophisticated information technology, and a renewal of the systems and procedures. All of

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[21] Section 4.5.1

[22] Nineteen countries consisting of Botswana, Lesotho, Mauritius, Namibia, Seychelles, South Africa, Swaziland, Zimbabwe, Kenya, Malawi, Rwanda, Tanzania, Uganda, Zambia, the Gambia, Ghana, Liberia, Nigeria, and Sierra Leone.

[23] Nineteen countries consisting of Benin, Burkina Faso, Burundi, Cameroon, the Central African Republic, Chad, the Comoros, the Democratic Republic of Congo, the Republic of Congo, Cote d'Ivoire, Djibouti, Gabon, Guinea, Madagascar, Mali, Mauritania, Senegal, and Togo.

which are in accordance with the ten guiding principles in designing a tax administrative reform strategy (Silvani and Baer 1997, 9-31).

The establishment of a functional organisation for tax administration in Indonesia also follows practise in other countries. For example, by 2005, 11 of 13 countries in the Middle East have moved or were moving to this type of organisation from only two countries (Algeria and Morocco) ten years before (Crandall and Bodin 2005, 16). In the Francophone countries in Sub-Saharan Africa, 19 countries have adopted this structure between 1995 and 2013 (Fossat and Bua 2013, 17). Lastly, in Anglophone Africa, by 2011 all but two countries (Seychelles and Swaziland) have adopted the functional model (Kloeden 2011, 25).

The establishment of special tax offices to deal with large taxpayers in Indonesia in the last tax administration reform are also in accordance with the practise in the reforms in other countries. In 19 Anglophone African countries, by 2011 only six countries have not established tax offices dealing with large taxpayers (Kloeden 2011, 25), while in the Middle Eastern countries, by 2005 ten countries have adapted this model with two others planning to do so from none in the 1990s (Crandall and Bodin 2005, 17), and of the Francophone countries in Sub-Saharan Africa, all 19 countries surveyed all have established these types of offices (Fossat and Bua 2013, 14).

In a survey by the OECD (2009, 33), it is found that 12 out of the 43 countries surveyed (21 OECD countries and 12 other countries) have adopted a functional model as the primary criterion for structuring their tax administration operations, while 24 revenue bodies report that a broad mix of criteria, including function, are applied in practice. Other findings show that 33 revenue bodies have established special offices to administer their largest taxpayers.

Regarding information and technology, included in this reform is the writing of all standard operating procedures, the launching of e-filing (internet-based tax filing), e-payment (internet-based tax payment), and e-registration (internet-based tax number registration), the determination of audit plans based on risk analysis, the program on enhancing compliance for taxpayers who do not file their tax return, and the optimisation of third party data. The DGT has benefited greatly from the advancement of information technology (Rizal 2011, 452).

The development of the use of computers in Indonesia fared differently to other countries. It seems to be more advanced than in Francophone countries in Sub-Saharan Africa where only two countries, namely Mali and Senegal, have benefited from technological progress (Fossat and Bua 2013, 30) and Anglophone countries in Africa, where information technology is "overpromised but undelivered" (Kloeden 2011, 46). In Middle-Eastern countries, there have been improvements to some degree in a number of countries, including Egypt, Lebanon, Jordan, Morocco, Pakistan, Saudi Arabia, and Sudan (Crandall and Bodin 2005, 19). In OECD countries, the use of modern technology has materialized in the forms of electronic filing of returns, electronic payments of tax liability, and access for taxpayers to their account with the tax administration (OECD 2009, 166).

Regarding human resources, the new human resources management policy includes new procedures for appointing staff, a code of conduct and increased salaries based on the job grades (Brondolo, Silvani et al. 2008, 34). In Middle-Eastern countries, a lack of capacity, expertise, and resources had been a challenge for the reform (Crandall and Bodin 2005, 10), and that taxpayer services reform has not been effective (Crandall and Bodin 2005, 24). There is not much discussion on the human resources management in the tax reform in Anglophone countries in Africa but the application of modern management has increased, including the role of senior managers in tax administration that has shifted from day-to-day operation to longer term strategy (Kloeden 2011, 45). In Francophone countries of Sub-Saharan Africa, the reform also aims to strengthen the capacity including selecting new professionals and hiring potential young staff (Fossat and Bua 2013, 18), but the areas of staff training and development, corruption eradication, and financial incentives still need progress (Fossat and Bua 2013, 37).

Overall, the tax administration reform in Indonesia is in accordance with the international practice. It is triggered by the need to enhance tax revenue and to improve the performance of the tax administration by modernising information technology, modifying the organisation structure and improving human resources management.

7.4 Achievement of the Tax administrative Reform

7.4.1 Enhancing voluntary compliance

In order to analyse whether the first and primary goal of the reform is achieved it is important to compare the tax revenue before and after the reform, because the tax

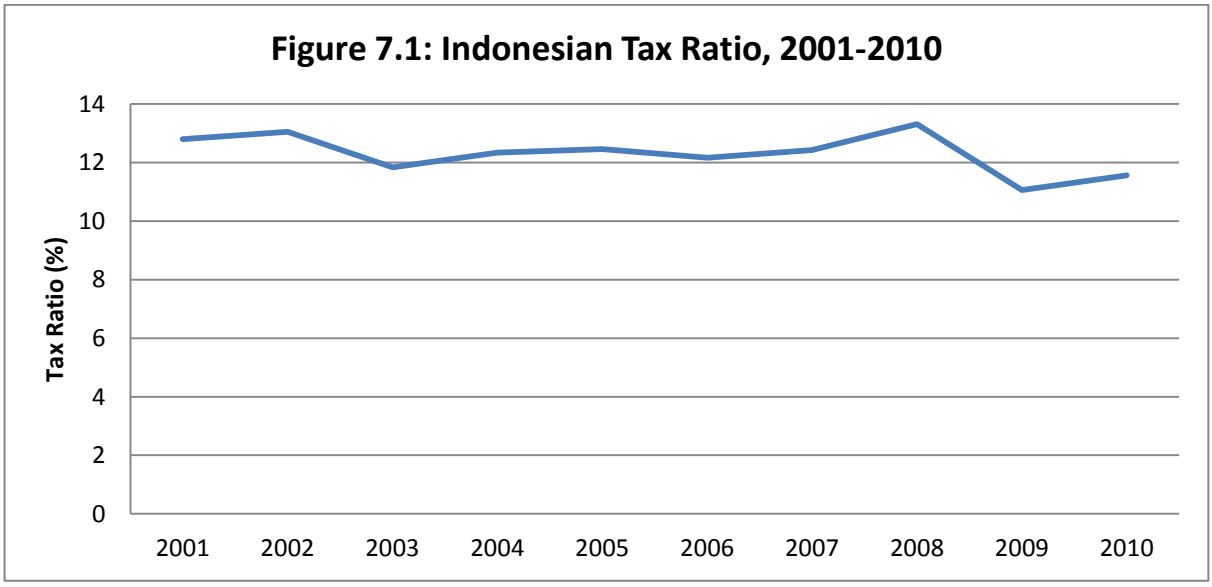
revenue, minus the enforcement, is a reflection of the taxpayers' compliance. The tax ratio as a percentage of the GDP from 2001 to 2010 is presented in Table 7.16.

Table 7.16: Tax Revenue in Indonesia, 2001–2010

Aspects	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Central tax	185.54	210.09	242.04	280.56	347.03	409.20	490.99	658.70	619.92	742.33
Domestic tax	175.97	199.51	230.93	267.82	331.79	395.97	470.05	622.36	601.25	720.76
Tax on int'l trade	9.57	10.58	11.11	12.74	15.24	13.23	20.94	36.34	18.67	22.56
GDP current price	1,449.40	1,610.00	2,045.90	2,273.10	2,784.30	3,365.90	3,950.90	4,948.70	5,603.90	6,422.90
Tax ratio %	12.80	13.05	11.83	12.34	12.46	12.16	12.43	13.31	11.06	11.56

Source: DGT (2011 p. 101). Note: all figures (except stated otherwise) is in IDR trillion.

The development of the tax ratio in 2001-2010 is presented in Figure 7.1.



The effect of tax administration reform on the taxpayers' compliance is not significant. It can be seen in Table 7.16 that the tax ratio in 2002 when the tax administration reform started is 13.05 per cent and has been fluctuating until 2010 with the highest ratio in 2008 with 13.31 per cent and the lowest in 2009 with 11.06 per cent. Also it can be seen that there is no significant increase in tax ratio from the year before the reform started, namely in 2001, to the year of this current research, which is 2010; albeit, there is a decrease from 12.8 per cent to 11.56 per cent.

7.4.2 Promoting trust

The second goal is to promote the trust of taxpayers toward the tax administration. Trust exists when parties involved have favourable perceptions of each other (Wheeless and

Grotz 1977, 251). A party that trusts other parties does not need to worry about and monitor the other parties (Levi and Stoker 2000, 496). The taxpayers' trust in the tax administration could be classified as organisational trust in the categorisation of trust proposed by Blind (2010, 26). Cheema (2010) discusses five factors that influence the trust. They include effective policies and implementation mechanism, committed and inspiring political leaders, economic growth and economic opportunities, provision and delivery of service, and good governance and effective public administration.

From the five factors indicated by Cheema (2010), three aspects could be deduced from the survey, namely policy and implementation mechanism, provision of delivery of services, and good governance. Two factors, namely committed and inspiring political leaders and economic growth and opportunities, are not covered in the questionnaires. Regarding policy and implementation mechanism, the related questions are questions numbered 1, 5 and 7. Regarding the provision of delivery of services, the related questions are 2, 3, 4, 6, 8, 9 and 10. The response on the governance could be deduced from these questions as well. It should be noted, however, that this grouping is not a rigid one; instead one or more questions could be grouped into other groups and vice versa.

Regarding policy implementation and mechanism, there are three statements asked of the respondents, and the results are presented in Table 7.17.

Table 7.17: Statements and Results on Policy Implementation

No	Statement	Agree	Neutral	Disagree
1	In general, tax administration is now better	98	2	0
5	Tax laws/regulations are now simpler	32	37	31
7	Tax officers are now more competent	62	25	13

It can be seen from Table 7.17 that two out of the three statements regarding policy implementation result in positive responses. Statement number one produces the highest approval rate at 98 per cent and zero per cent of disagreeing responses. Question number five produces a balanced response with 32 per cent agreeing, 37 per cent neutral response and 31 per cent disagreeing. Lastly, question number seven produces more agreement (62%) than disagreement (13%). It should be noted here, however, that the latter question for which the agreement rate is the lowest, is not directly related to tax administration reform, for changes in laws or regulations are more related to tax policy reform.

Regarding the provision of services, there are seven statements asked of the respondents, and the results are presented in Table 7.18.

Table 7.18: Statements and Results on Provision of Services, %

No	Statement	Agree	Neutral	Disagree
2	Information/computer system in the tax office makes it easier to comply with tax regulation	90	9	1
3	It is now easier to obtain tax ruling clarification	56	39	15
4	Tax objection/appeal procedure is now easier	29	58	13
6	Tax return submission is now simpler	76	23	1
8	Service in Tax Office is now better	83	13	4
9	Audit process is now simpler	41	47	12
10	I am satisfied with the service provided by current tax office	73	26	1

It can be seen in Table 7.18 that five of seven statements produce positive responses. The statement on the information or computer system produces the most agreement (90%), followed by the service in general (83%), the tax return submission (76%), the service in their current tax office (73%), and tax ruling clarification (56%). The statements that obtain approval rate less than 50 per cent are tax audit (41%) and tax objection or appeal (29%). In these two latter categories, the neutral response position is significant at 58 per cent and 47 per cent, respectively; with disagreeing responses only score 13 per cent and 12 per cent, respectively.

Regarding good governance, it should be noted that there is no single and exhaustive definition of good governance that is accepted universally (United Nations Human Rights 2013). Governance can be defined as “the process of decision-making and the process by which decisions are implemented (or not implemented)” (United Nations 2013). From this definition, it could be argued that most, if not all, of the statements related to policy implementation and service provision discussed above are related to good governance. Therefore, separate analysis on the governance is not pursued here.

Increasing Productivity and Integrity

The third goal, to increase the productivity and integrity of the taxes apparatus, is evident from the interview and focus group discussion. The productivity of the tax apparatus could be investigated by comparing the actual performance with a benchmark determined beforehand. Productivity is “the rate at which goods are produced or work is completed” (Merriam-Webster Dictionary 2013). It means that after the reform, the service provided

and the functions undertaken are completed in better rate. Meanwhile, the same dictionary provides the definition of integrity as “the quality of being honest and fair”.

Even though direct questions on the speed of the work performed are not asked, a number of questions that can indicate the rate of completion are asked and the results are presented in Table 7.19.

Table 7.19: Statements and Results on the Completion of the Performance

No.	Statement	Agree	Neutral	Disagree
3	It is now easier to obtain tax ruling clarification	56	39	15
4	Tax objection/appeal procedure is now easier	29	58	13
6	Tax return submission is now simpler	76	23	1
8	Service in Tax Office is now better	83	13	4

From Table 7.19 it can be seen that three out of four statements produce positive responses of more than 50 per cent. There is only one statement, namely on the tax objection and appeal question, that produces 29 per cent agreeing response compared to 56, 76 and 83 per cent for the statement on tax ruling, tax submission and service, respectively. Still, this statement on tax objection/appeal produces more agreement (29%) than disagreement (13%).

Tax officers with high integrity, based on the above definition, could mean tax officers with adequate capabilities that perform their jobs with commitment and in accordance with the code of conducts. It is found during the interviews and discussion that after the reform the tax officers work more professionally and are more committed, as well as remarkably less corrupt than before.

7.5 Summary

This chapter discusses the comparison of the results of the compliance costs for large companies between Indonesia and other countries, particularly US, Canada, Australia, Malaysian, Singapore, and Hong Kong. Even though the comparison between countries could be misleading due to a number of different factors, such as the difference in tax structures, taxpayer populations and tax rates, a careful comparison could explain the factors behind any differences.

In order to undertake a proper comparison, a number of adjustments are needed, including inflation, exchange rates, and types of taxes. The results of the comparison show

that the compliance costs for income tax in Indonesia is significantly lower than that of the other countries. However, this does not imply that the Indonesian tax system is better or less complicated than that of the other countries, for it is the size of the companies in the Indonesian survey that might explain the difference. Specifically, the relative size of the companies in current research is smaller than that of the surveys in US, Canada, Australia, Malaysian, Singapore, and Hong Kong. The effect of the small size of the companies in Indonesia seems bigger than the effect of the complexity of the tax system, because a survey by the World Bank suggests that the Indonesian tax system is the most complicated compared with those six countries.

Another factor that makes the compliance costs in Indonesia lower is that the wage rate. Even though the tax system in Indonesia is complex (according to the World Bank), and it needs more resources including staff to deal with, the costs are still relatively lower because the wage rate in Indonesia is significantly lower than that of US, Canada, Australia, Malaysian, Singapore, and Hong Kong.

Regarding the components of the costs, namely the composition of internal and external costs, Indonesia is comparable with US and Canada where the internal costs are greater than the external costs. Conversely, the composition is different from that in Australia, Malaysia, Singapore, and Hong Kong where the external costs are bigger.

The comparison of the allocation of the costs based on the types of taxes the large companies handle cannot be conducted with other countries because in the countries where there are research studies targeting large companies, only the costs to comply with the income tax only, are investigated. Consequently, the comparison is made with the countries whose research is targeting all sizes of companies, not just limited to the large ones. The comparison with the UK, the Netherlands, Australia, and New Zealand shows that In Indonesia, the pattern is the same as in the UK, where VAT ranks in the first place, followed by the withholding taxes, and the corporate income tax. It is different from Australia and New Zealand where corporate income tax absorbs most of the costs, and in New Zealand where the employees' taxes dominate.

Regarding the attitude toward the tax system, there are common sources of high compliance costs, such as international transaction reporting requirements and tax audit and objection processes. Simplification in the tax system is also generally recommended.

The survey and other data show that the goals of the Indonesian tax administration reforms are partially achieved. The main goal, which is to enhance the voluntary compliance, is not strongly indicated by the tax revenue collection data. The other goals, namely to promote trust and to increase the productivity and integrity of the tax apparatus, are achieved, as indicated by the results of the survey, interviews and discussion.

Chapter 8. Conclusions and Policy Recommendations

8.1 Introduction

This chapter is the culmination of the thesis, summarising the results and analysis of the research and providing the recommendations to related parties as well as acknowledging the limitations. This chapter is intended to provide the synthesis of the whole picture of the research into the compliance costs of large corporate taxpayers in Indonesia. It also offers recommendations to related parties on the administration policies and on future research directions.

The chapter starts with a summary of key findings in Section 8.2, followed by recommendations for the Indonesian tax administration that emanate from the research in Section 8.3 and the limitations of this study in Section 8.4. Lastly, future research in other areas is discussed in Section 8.5 before Section 8.6 concludes the chapter.

8.2 Summary of Key Findings

8.2.1 Compliance Costs

This research has been able to achieve the five objectives of the research. The first objective is to investigate the magnitude of the costs in monetary terms and their relation to a number of pertinent factors. From Chapter 5, it is estimated that the average compliance costs of large companies in Indonesia in 2010 is IDR420 million, or AUD38,621 using the December 2013 exchange rate. To put it into perspective, that amount equals 11 per cent to 0.4 per cent of annual revenue for the smallest to the largest companies respectively, 13 per cent to 0.4 per cent of total assets, 94 per cent to 0.5 per cent of CIT payments, 49 per cent to 2.9 per cent of VAT payments, and 41 per cent to 2.9 per cent of WHT payments. When analysed based on the number of employees, the average compliance costs per person range from IDR5 million for the smallest companies to IDR0.1 million for the largest companies. Nationally, the gross compliance costs equal IDR12.28 trillion, or 3.16 per cent of tax revenue and 0.19 per cent of GDP. The cash flow benefits

enjoyed by large companies in Indonesia are estimated to be IDR2.90 trillion. Further, the tax deductibility benefits account for IDR3.05 trillion. Accordingly, the net compliance costs of large companies in Indonesia, after the deduction of the cash flow benefits and tax deductibility benefits from the gross compliance costs, are estimated to be 1.63 per cent of tax revenue and 0.10 per cent of GDP.

The second objective of the research is to identify the features of the costs based on the scope of the expenditure, the purpose of the costs, and the allocation based on the type of tax and activities. The features of the costs could be viewed from a number of perspectives. Based on the sector, the companies in the retail and wholesale trading sector bear the highest compliance costs compared to those in other sectors. However, there is no conclusive evidence as to what sectors have the companies with the least compliance costs. Based on the length of operation, there is little evidence that the difference in the length of operation significantly affect the compliance costs. When analysed by the components of the compliance costs, staff salaries account for almost half of the costs (IDR201 million), followed by payment to various personnel within the companies with a 17 per cent contribution (IDR71 million), and audit costs with a 10 per cent contribution (UDR43 million). Staff salaries account significantly in the compliance costs because almost all companies hire a number of full-time staff to manage taxation, with an average of 2.44 full-time employees per company. The dominance of staff salaries is pervasive among companies in different sectors, different lengths of operation and different sizes. Regarding the use of tax consultants, the research also shows that the more mature the companies, the less their dependence on consultants. Likewise, the larger the companies, the less dependent they are on tax consultants. Regarding the proportion of time used by senior management in total compliance costs, the research shows that the larger the companies, the smaller the percentage.

The research shows that the compliance costs are regressive in terms of the size. As the companies grow in terms of the number of employees, total assets, and annual turnover, the compliance costs per unit of measurement (per employee, IDR total asset, or IDR annual turnover) decrease, showing economies of size. The same also applies if the compliance costs are measured by each IDR paid for income tax, Value-Added Tax, and a number of withholding taxes.

The components of the costs based on the recipient of payment could be grouped into internal costs (i.e. payment to staff and other costs) and external costs (i.e. payment to tax

consultants). This research shows that the composition of the costs is 73 per cent internal costs (IDR307 million) and 27 per cent external costs (IDR113 million). Tax consultants are hired to manage tax audits (36%), to handle routine tax management in the companies (35%), to prepare tax returns (27%), to process tax objections (7%) and to represent the companies in any tax trial (4%). The dominancy of the internal costs is widespread for companies in different sectors (except the construction sector), different length of operation and different size.

The components of the costs based on the purpose of expenditure could be grouped into two, namely, computational costs and planning costs. This research shows that computational costs dominate the costs with the average contribution of 73 per cent compared to 27 per cent for planning purposes. The dominance of computational costs is spread over different sectors, different lengths of operation and different size of companies. The research also shows that the more mature the company, the greater the proportion of the costs aimed at computational purposes. Meanwhile, the greater the size of the company, the smaller the percentage of planning costs, except for the companies in the largest band of turnover where the planning costs are slightly larger than that of companies in the closest band of turnover.

This research shows that the allocation of the costs based on the type of taxes on average is slightly dominated by VAT which absorbs 43 per cent of the costs, compared to WHT and CIT with 29 and 28 per cent respectively. This proportion varies depending on the sector, with the proportion of VAT ranging from 28 per cent in the service sector to 52 per cent in the “other” sector. Meanwhile the proportion of CIT ranges from 20 per cent in the mining sector to 51 per cent in the service sector and WHT ranges from 23 per cent in the “other” sector to 39 per cent in the mining sector. When analysed based on the length of operation, the longer the companies operate, the smaller is proportion of the costs to deal with VAT. However, there is little evidence that the size of the companies affects the allocation of the costs. However, there is little evidence that the size of the companies consistently affects the allocation.

In regard to the use of tax consultants, the research shows that almost half (49%) of respondents hire them to manage day-to-day tax management, 43 per cent of companies hire tax consultants to prepare tax returns, 30 per cent to face tax audits, 11 per cent to propose tax objections and six per cent to represent the taxpayer in any tax trial. The retail and wholesale trading sector appears to be hiring tax consultants the most compared to

other sectors. The research shows that the more mature the company, the less they hire tax consultants. It also shows that the larger the company, the less the use of tax consultants, except for the companies in the largest band of turnover.

The research indicates that when undertaking non-routine activities, namely handling tax audits, proposing tax objections and facing any tax trial, large companies depend mostly on tax consultants instead of relying on their own tax staff. In handling the tax audits, 93 per cent of the compliance costs are allocated to pay tax consultants with only five per cent for tax staff salaries and two per cent for other costs. Likewise, when proposing tax objections, 77 per cent of the costs are allocated to the tax consultants, 17 per cent to own staff and six per cent to other costs. When facing a tax trial, 86 per cent of the costs are paid to tax consultants, 12 per cent for staff and two per cent for other costs.

The third objective of the research is to investigate how the compliance costs of large companies in Indonesia compare to those in other countries and the relationship between the magnitudes of the compliance costs and the complexity of the tax system in different countries. Comparison with other countries is inherently difficult due to many factors, particularly tax systems and economic and social conditions. Nevertheless, this research indicates that comparison with similar research in other countries results in a number of notable points. The amount of compliance costs for large companies in Indonesia of AUD12,892 for income tax is significantly lower than those in countries where the compliance costs of income taxes are investigated, namely in the US, Canada, Australia, Malaysia, Singapore and Hong Kong. The compliance costs of large companies in the US, Canada, and Australia are much higher than those in Indonesia at AUD2.3 million, AUD1.2 million and AUD0.6 million, respectively, after adjusting for inflation and exchange rates. The compliance costs of large companies (in this case public companies) in Malaysia, Singapore and Hong Kong are AUD31,865; AUD74,920; and AUD46,037, respectively, after adjusted for inflation and exchange rates. The overall compliance costs of large companies in Indonesia for all type of taxes, which are AUD46,043. This is smaller than those in Australia of AUD2.8 million.

Upon further investigation, the findings that suggest that the compliance costs in Indonesia are lower than those in other countries do not necessarily mean than the tax system in Indonesia is less complex than that in other countries. The lower costs in Indonesia are mainly caused by the fact that the size of companies in Indonesia is smaller than that in other countries. In addition to this, the wage rate in Indonesia is also significantly lower

than that in other countries. In fact, a study by the World Bank shows that the tax system in Indonesia is more complex than that in all other countries in the comparison.

Even though the amount of compliance costs in Indonesia is lower compared to developed countries (US, Canada, Australia), the features of the costs share a number of similarities. For example, the dependence on own staff in Indonesian companies is similar to that in the US, Canada and Australia in 2013, with the exception being that of Australia in 1986/87. The dominance of staff costs in the internal costs in Indonesia is the same as in developed countries. The composition of the costs based on the purposes, namely for planning and computation, in Indonesia is similar to that in Australia in 2013 and the US, but different compared to Australia in 1986/87 and Canada.

Interestingly, while the features of the compliance costs in Indonesia are commonly comparable with those in developed countries, the features are different compared with those in other Asian countries. For example, the composition based on the internal and external costs in Indonesia, where the internal costs dominate, is reversed with that in other Asian countries where external costs are greater. Also, when conducting tax planning and tax computation, companies in Indonesia mainly depend on their own staff, compared to companies in other Asian countries where they depend on the external experts. However, there is at least one similarity between Indonesia and other Asian countries; namely when the costs are divided into computational and planning costs, both in Indonesia and in other countries in Asia, the computational costs are greater.

Due to limited results in other countries, only a number of additional features can be compared. For example, regarding the sector, while in Indonesia the retail and wholesale sector bears the highest compliance costs compared to other sectors; in the US it is the sector with the lowest compliance costs. Similarly, while the mining and extraction sector in Indonesia has the lowest costs, in Canada, it is the sector with the highest costs. The compliance costs as a percentage of tax revenue in Indonesia, which is 3.16 per cent, is lower than that in USA, Canada and Australia with 3.2, 4.6–4.9, and 11.4–23.7 per cent, respectively; but it is higher than in Malaysia with 0.36 per cent. The percentage of compliance costs of GDP in Indonesia at 0.19 per cent is lower than that in Australia at 0.25 to 0.53 per cent. The allocation of the costs in Indonesia based on the types of taxes is similar to that in the UK, where VAT absorbs the most, followed by WHT and CIT.

It should be noted here again that comparison with other countries does not reflect the relative complexity of the tax system in those countries, because the costs are affected by many factors, particularly the tax rate, tax system, overall economic structure as well law and social conditions.

As an additional finding, the amount of compliance costs in this research is compared with prior research in Indonesia on public companies by Prasetyo (2008). The comparison shows that the amount of compliance costs in both research studies are relatively similar.

8.2.2 Tax Administration Reform

The fourth objective of the research is to investigate the attitudes of large companies towards the Indonesian tax system after the tax administration reform has been implemented. The research has been able to investigate the attitudes toward the tax administration in general, the current tax office with whom they register and the AR with whom they interact. With varying degrees, large companies agree that in general tax administration is better in terms of the advancement in the information and technology (91% agreeing response), ease of obtaining ruling clarifications (55%), simpler procedures for tax objections and appeals (32%) and ease in following the regulations (73%). Also with varying degrees, large companies in Indonesia agree that the tax office where the taxpayers register is better in terms of easier submission of tax returns (75%), more competent human resources (63%), better service (83%), and more satisfaction (73%). There is only one statement, namely the easier process of tax audits that produces a less than 50 per cent agreement rate. Regarding the AR with whom the taxpayers interact on a routine basis, the attitudes are different. Even though 74 per cent agree that the AR are helpful, just under half (47%) agree that the ARs are knowledgeable. Also, only 32 per cent of companies agree that the ARs ease psychological pressures. Finally only 42 per cent agree that the AR is needed, with half of respondents choosing a neutral answer and eight per cent disagreeing.

The fifth research objective is to identify the effect of the tax administration reform on the compliance costs. The results have indicated that, unfortunately, despite the majority of positives attitudes toward the tax administration reform, a majority of respondents (70%) do not experience a change in the compliance costs. Only 18 per cent of respondents state that the reform reduces their compliance costs while eleven per cent claims the reform increases the compliance costs instead. The reduction in the costs tends to be enjoyed

mostly by the companies operating in the manufacturing sector, located on Sumatra Island, employing 501 to 1,000 workers, and having an annual turnover of more than UDR100 billion and total assets of more than IDR100 billion. Meanwhile, an increase in the compliance costs is experienced by companies operating in the "other" sector, located in Java Island, have been operating for more than ten years, employing more than 5,000 people, and having assets of IDR50–100 billion.

8.2.3 Other Results

This research also produces two findings on the tax administration reform in Indonesia, particularly the comparison with similar reforms in other countries and the effectiveness of the reform. The establishment of organisational structure based on functions and the formation of special offices to deal with large companies in Indonesia follow the practice in other countries, particularly in OECD countries.

Regarding the goals of the reform, unfortunately this has been only partially achieved. The main goal, which is to enhance voluntary compliance, is not strongly indicated based on the tax revenue collection data. The other goals, namely promoting trust and enhancing productivity and integrity of the tax apparatus, have been achieved.

8.3 Major Policy Recommendations

8.3.1 Acknowledgement of the Compliance Costs

In order to analyse the recognition of the Indonesian tax administration on the compliance costs, it is important to learn what the goals are of the tax reforms that have been implemented. The first tax reform in 1983 has goals to pursue self-financing of the state budget and to simplify the type of taxes and obligations and to promote the participations of the taxpayers (Considerations, Republic of Indonesia 1983a, Republic of Indonesia 1983b, Republic of Indonesia 1983c, Republic of Indonesia 1985, Republic of Indonesia 1985). The second reform in 1994 has the purpose of enhancing the state revenue through taxation and regulating economic activities (Considerations, Republic of Indonesia 1994a, Republic of Indonesia 1994b, Republic of Indonesia 1994c, Republic of Indonesia 1994d, Kim 2010). The third reform in 1997 has the purpose of a establishing a comprehensive tax trial with a simple, quick and low-cost system, enacting regional tax law with certainty and simplicity, legislating new laws on tax arrears collection, non-tax revenue, and tax on

transfer of land and buildings (Considerations, Republic of Indonesia 1997a, Republic of Indonesia 1997b, Republic of Indonesia 1997c, Republic of Indonesia 1997d, Republic of Indonesia 1997e).

Meanwhile, the goals of the fourth tax reforms in 2000 are to enhance self-financing in the state budget; to pursue justice and to provide facility in taxation; to boost the investment; to simplify the obligations; and to balance the welfare with the new regional and central government revenue sharing (Considerations, Republic of Indonesia 2000a, Republic of Indonesia 2000b, Republic of Indonesia 2000c, Republic of Indonesia 2000d, Republic of Indonesia 2000e, Republic of Indonesia 2000f). The fifth reform goals in 2007 are to enhance the efficiency in collecting taxes; to improve the service, law certainty, and competitiveness in investment climate; to support the development of small and medium business; to enhance the balance of the rights and obligations of taxpayers; and to promote accountable and consistent self-assessment system; professionalism of the tax apparatus; openness in tax information; and voluntary compliance (Considerations, Republic of Indonesia 2007, Republic of Indonesia 2009a, Republic of Indonesia 2009b).

From all the goals of the reforms outlined above, it is clear that the term compliance costs are not expressed explicitly. Instead they are implicitly addressed in the terms of to simplify the types of taxes (1983 reform); to establish a quick and low-cost tax trial (1997 reform); to provide the tax facilities and simplify the obligations (2000 reform); to improve service; and to balance the rights and obligations of taxpayers (2007 reform).

Returning to the compliance costs literature, there are two proposals on the relationship between government policy and compliance costs. First, Sandford, Godwin, and Hardwick (1989, 209–218) suggest that the relationship materialises into four stages, namely recognition, allocation, minimisation, and compensation. Further, Pope (1993, 71–73) proposes six stages, namely non-recognition, qualitative recognition, estimation and valuation, policy recognition, effective policy measures, and continual monitoring.

In the case of Indonesia, there is the recognition that the compliance costs do exist, although implicitly, and minimization has been taking place since the beginning of tax reforms in 1983. This could be grouped into the third stage according Sandford, Godwin, and Hardwick (1989) and this also implies that when undertaking the minimisation of the costs as outlined in the reforms, the allocation between administrative costs to the government and the compliance costs to the taxpayers have been evaluated. Based on

Pope's proposition, the compliance costs in Indonesia is in the stage of qualitative recognition (stage two), because the estimation of the taxpayers costs of compliance is rare, with the one exception for public companies as recognised before. Despite the lack of the estimation, the measures on the reduction of the costs have been undertaken by the government as discussed in the above paragraphs and in the following sections.

8.3.2 Measures to Minimise Compliance Costs

Besides the national policies to minimise compliance costs as outline above, the DGT also establishes specific measures to address specific areas in the Indonesian tax system. These include electronic filling and reporting, known as e-filling and e-SPT respectively, special mechanisms of tax restitution for specific taxpayers, the formation of a quality assurance team and the enactment of special income tax calculation for small taxpayers.

E-filling and e-SPT are two policies established to facilitate the filling of tax returns and the lodgement of the returns through the internet and is expected to reduce the costs of traveling to the tax offices and multiplication of the documents needed. The number of taxpayers using these systems increases from 688 in 2006 (or 0.02% of all taxpayers) to 4,941 in 2010 for e-filling (0.03% of all taxpayers) and from 12,345 (or 0.26% of all taxpayers) to 61,651 taxpayers (or 0.32% of all taxpayers) for e-SPT (Directorate General of Taxes 2011, 98).

The special mechanism for tax restitution is a policy to provide an express process for certain taxpayers who claim overpaid taxes; the process is completed in one month for VAT and three months for income tax claims. In order to benefit from this facility, taxpayers have to fulfil certain requirements, including being punctual in submitting tax returns; having paid all tax payable in arrears; having financial statements audited by a public accountant with an "unqualified opinion" for the latest three years ; and never having tax crime cases (Article 17C, General Provisions and Tax Procedures Act, 2007). Because of this policy, certain taxpayers could save the costs associated with tax audits (as discussed in Chapter 3) and also could receive tax claims in a shorter time and therefore improve their working capital.

Still related to tax audits, there is now a policy to establish a quality assurance teams in the Regional Offices. The establishment of this ad hoc team can be requested by the audited taxpayers when there is a significant disagreement between the taxpayers and the tax auditors on the amount of tax payable; the final decision is made by this team (Article 11A,

Minister of Finance 2011). With this policy, the tax auditors are discouraged from determining arbitrary tax adjustments, while the taxpayers could save the substantial costs of potential tax objections (as discussed in Chapter 3).

For small taxpayers, DGT has established a simple calculation of income tax payable. A small taxpayer is defined as a taxpayer with an annual turnover of less IDR4.8 billion (or AUD441,419 at end of 2013 exchange rates). This taxpayer is not obliged to calculate their tax payable based on their accounting income. Rather, the income tax payable is one per cent flat of the amount of the turnover, and the tax is due every month (Article 2 and 3, Government of Indonesia 2013). With this policy, small business taxpayers could save the costs of bookkeeping and calculating income tax payable. Overall, even though the quantification of the compliance costs in Indonesia has been rare, the Indonesian tax administration has established a number of policies to reduce the costs.

8.3.3 Policy Recommendations

The first and foremost recommendation would be for the government to encourage more research on tax compliance costs. This could be undertaken within the DGT organisation (there is special unit named Senior Advisors in DGT as shown in the organisational structure in Appendix 3) or assign research companies or universities to undertake such research. This recommended research is valuable not only in term of attempting to be a modern organisation that sets up policies based on scientific research, but also in practical terms, as the tax administration could gain insights into what the costs for taxpayers are to fulfil tax obligations and what are the components, as well as the determinants, of the costs. With this knowledge, the policies could be targeted on the specific issues faced by taxpayers in specific segments.

In a broader sense, the government, with the support from the parliament, should start taking initiatives to adopt the establishment of “regulation impact statement” that have been implemented in more advanced countries. With this policy, the impacts of proposed new regulations should be recognized and analysed before the enactment of the policies to help evaluate the costs and benefits of the policies. For example, as discovered during the interviews, the costs of preparing “transfer pricing documentation” for companies having transactions with related parties could amount to IDR150 million, about one-third of the average compliance costs of large taxpayers of IDR420 million. It could have been better if

there was a "regulation impact statement" before the issuance of the policy so that all stakeholders could voice their opinions.

One of the findings of this research shows that the costs of tax audits and subsequent activities, namely tax objections and tax appeals, are significant to the taxpayers. Tax audits in Indonesia are mostly conducted when the taxpayers are claiming tax overpayments,[24] except for certain taxpayers who satisfy a number of requirements.[25] Data shows that for example, in 2009 the Indonesian tax administration completed 40,965 routine audits (audits of tax overpayment claims) compared to 6,345 special audits based on risk analysis (Directorate General of Taxes 2010, 106). Therefore, it is recommended that the tax audits are concentrated more on the taxpayers who have the risk of noncompliance than on the taxpayers who claim tax overpayments. This policy would benefit both the taxpayers because of the saving of the audit costs and the tax administration because of potential tax revenue resulting from risk-based audits and of increasing compliance by the taxpayers who have only a small chance of being audited due to the fact that the number of corporate taxpayers is currently more than 1.6 million (Directorate General of Taxes 2010, 102) and the number of risk-based audits is only 6,345 as mentioned above.

In line with the finding of this research that the tax administration reforms are beneficial to the taxpayers but does not contribute to the voluntary compliance of the taxpayers as expected, it is recommended that the tax administration investigate more the factors affecting tax compliance in Indonesia, for the improvement in the tax administration is not adequate enough to guarantee improvements in tax compliance. There are many other factors contributing to compliance in Indonesia that quite possibly are different from those in developed countries, as warned by McKerchar and Evans (2009 p. 171), including corruption, weak administration, taxpayers' lack of knowledge of taxation, and negative sentiments towards the government.

It has been discovered in this research that a large company in Indonesia hires an average of 2.44 full-time employees to handle taxes. According to the interviews and discussions, these staff mostly undertake routine activities such as preparing documents and

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[24] Section 4.5.

[25] Section 8.3.2.

calculating tax payables. If the complexity of the tax rules could be minimised, the costs associated with this staff would reduce significantly. Therefore, it is recommended here that the tax administration continuously aim to lessen the complexity of the procedures. For example, the tax administration could eliminate the regulations requiring physical documents to be included in the tax returns, and change that to internet-based reporting. This is because the use of e-filling and e-SPT is still in its early stage, as shown by the data in 2010 that the number of taxpayers using these systems is 4,941 for e-filling and 61,651 taxpayers for e-SPT, of the total number of taxpayers of 19 million (Directorate General of Taxes 2011 p. 98).

8.4 Limitations of the Study

This research estimates the compliance costs of large corporate taxpayers registered in the Large and Medium Taxpayers Offices in the Indonesian tax administration (DGT). The inclusion of taxpayers in these offices is not based on an absolute value such as the number of employees or the amount of turnover of those companies; rather it is based on their relative size or ranking nationally or regionally. A more accurate definition of large companies is provided by the Indonesian Statistical Bureau (BPS), which is based on the level of turnover. However, the data from this agency does not include other supporting features such as the identity of the companies from which the sample could be drawn or the corresponding revenue for each type of tax that is useful in data analysis. Nevertheless, that the data sets from both the DGT and the BPS are similar as demonstrated in Section 3.4.3 especially Table 3.2.

In addition, the response rate of this research is somewhat low at 8.2 per cent, which is lower than that in other Asian countries such as Malaysia at 16 per cent (Loh et al. 1997), Singapore in 1994 at 23 per cent (Ariff, Loh, and Talib 1995) and in 1996 at 20 per cent (Ariff, Ismail, and Loh 1997), and Hong Kong at 12 per cent (Chan et al. 1999). Only India has a lower response rate of 1.15 per cent (Chattopadhyay and Das-Gupta 2002). This is also significantly lower than research on large companies in developed countries such as in Australia with 17 per cent (Pope, Fayle, and Chen 1991) and 42 per cent (Evans, Lignier, and Tran-Nam 2013), in the US 27.5 per cent (Slemrod and Blumenthal 1996) and in Canada 24 per cent (Erard 1997). However, with a total number of respondents of 246, the generalisation of the results can be conducted, such as the compliance costs based on sectors with a consideration of company sizes as discussed in Section 5.4.1.

8.5 Recommendation for Future Research

Considering that in Indonesia the research on compliance costs is still in its early days, the opportunities are plentiful. As generally categorised, taxpayers could be grouped into three segments, namely individuals, small and medium businesses and large companies. Because this current research deals with large companies, any future research could concentrate on the other two segments, with individual taxpayers the priority because the number reaches more than 16 million of 19 million total taxpayers, or 84 per cent (Directorate General of Taxes 2011, 98) with tax revenue from this segment only accounting for 0.45 per cent, or IDR2.93 trillion of IDR650 trillion total tax revenue (Chandra 2011). The study of the small and medium companies could be the next, with the results completing the picture on the compliance costs of all taxpayers in Indonesia. After all the segments are investigated, the overall operating costs of taxation (compliance costs for taxpayers plus administrative costs for the government) could be calculated to provide a comprehensive picture. Alternatively, research into specific types of taxes (VAT, income tax, withholding taxes) could be undertaken one after another with the same goal to obtain overall picture of the compliance costs.

8.6 Concluding Remarks

This current research could be categorised as the first research on the compliance costs of large companies in Indonesia, with the only earlier research categorized as of smaller scale. It is understandable that the response rate of the research is small because the taxpayers might not be accustomed to this type of research, leading to unwillingness to participate by the majority of respondents.

This research has resulted in notable findings on the magnitude and the features of the compliance costs of large companies in Indonesia. The knowledge gained from this research is expected to enrich the development of compliance costs studies, especially for developing countries where this type of research is also still in a developing phase. This research also shows that the relatively small compliance costs in one country does not mean that the tax system in that country is less complex; the size of the companies in the research should be taken into consideration before comparing the costs with other countries. For tax administration in Indonesia, this research could provide valuable insights into the burden for the taxpayers to comply with tax laws, and furthermore it is expected that the tax administration would establish policies to minimise the compliance costs

without sacrificing tax revenue as an important part of the national budget. For other potential researchers, this research could also provide a picture of what aspects of research are fruitful and what others still need improvement.

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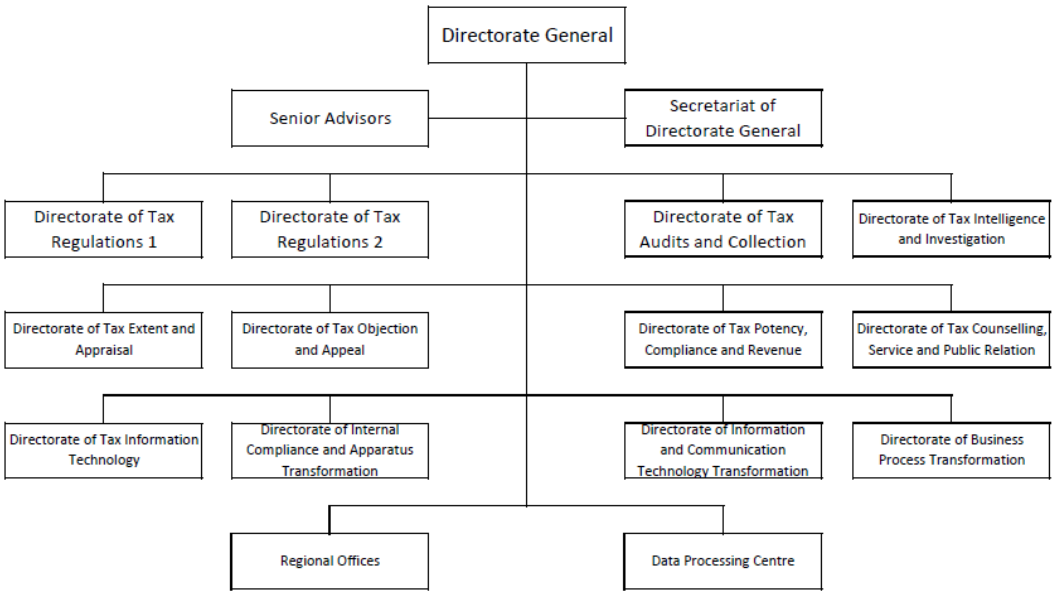
APPENDIX A: ORGANISATION STRUCTURE OF THE DIRECTORATE GENERAL OF TAXES

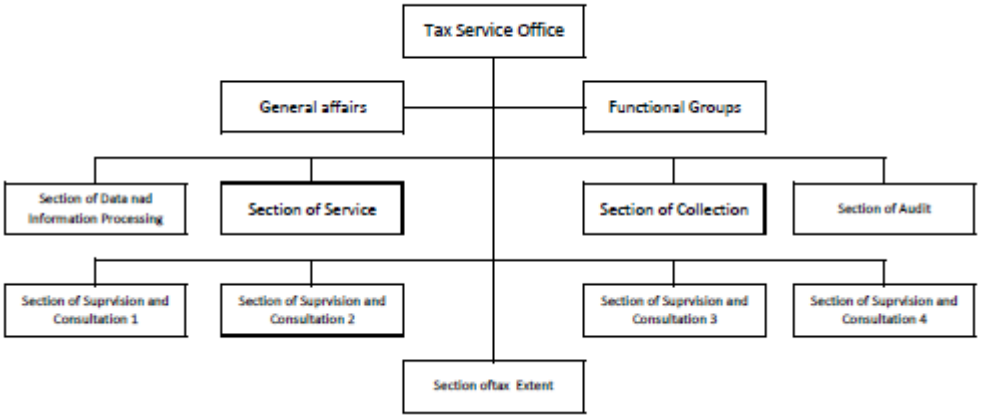


Source: Directorate general of Taxes (2013)

APPENDIX B: ORGANISATIONAL STRUCTURE OF A REGIONAL OFFICE

Source: Directorate general of Taxes (2013)

APPENDIX C: ORGANISATIONAL STRUCTURE OF A TAX OFFICE



Source: Directorate general of Taxes (2013)

APPENDIX D: RESULTS OF COMPLIANCE COSTS STUDIES ON COMPANIES

No.	Researchers Country Year Published Type of Taxes	Gross Compliance Costs: 1. Samples 2. National	Benefits: 1. Cash Flow 2. Tax deductibility	Net Compliance Costs	Ratio of: 1. Tax Revenue 2. GDP	Composition of costs Regressiveness	Proportion of Costs (based on type of taxes)
	EUROPEAN COUNTRIES						
1	UK Sandford et. Al PAYE and NI contribution 1981-1982	1. Smallest companies GBP89, largest GBP7,818 2. GBP449m	1. GBP945m 2. n/a	Negative CC for bigger companies, positive CC for smaller ones	1. Smallest companies 32.8%, largest 0.7% 2. n/a	Time value 84%, other internal costs 4%, external advisors 12%, others 1% Regressive	n/a
2	UK Sandford et. Al VAT 1986-1987	1. 1.94%-0.003% of taxable turnover 2. GBP791m	1. GBP580m 2. n/a	£211m	1. 3.69% gross, 0.98% net 2. n/a	Time value in-house 78%, external advisors 17%, others 5% Regressive	n/a
3	UK Sandford et. Al Corporation Tax 1986-1987	1. Smallest GBP100, largest £10,980 2. GBP300m	1. 'considerable', difficult to measure exactly 2. n/a		1. 2.22% 2. n/a	Time value 30%, other internal costs 78%, external advisors 47%, administration fees 8%, others 15.1% Regressive	n/a
4*	UK National Audit Office 1994 VAT	1. n/a 2. GBP1.6b	1. £750m				
5*	UK Green 1994 Direct Taxation	n/a				n/a	
6	The Netherlands Allers 1994 All taxes	1. Gld12,200-14,400 2. Gld6.1bln-8.4bln	1. Gld600m 2. Gld1.6bln		1. 4% 2. 1.5%	Rank: time spent, staff time, fees to consultants Regressive	Payroll taxes 43% VAT 29%
7	Sweden Malmer 1995 All taxes businesses	1. Income tax SEK728, payroll tax 3,199, VAT 7,265 2. Income tax SEK4,517m, payroll tax 585m, VAT 3,244m, excise 60m, total 8,406m			1. Income tax 1.7%, payroll tax 0.3%, VAT 2.5%, excise 0.1%, total 1.32% 2. n/a	Income tax: their own 38%, help 21%, expert help 42% VAT external 8%, internal 86% Payroll external 8%, internal 92% Income tax: time SEK326, expense	Income tax 58%, VAT 35%, payroll 6%, excise 1%

						1,036 VAT: time SEK25,413, expense 1,762 Payroll: time SEK10,463, expense 1,252	
8*	UK KPMG 1996 Listed companies	1. n/a 2. £265m					
9	Sweden Skattevert 2006 VAT	1. SEK9,516 2. SEK6.3k mil			1. 3% 2. n/a	Preparation 27%, filling 62%, finishing 12%	
10	UK Collard and Godwin 2000 PAYE NIC Companies	1. n/a 2. GBP1.6b	1. GBP750m				
	NORTH AMERICAN COUNTRIES						
11	US 1996 Slemrod and Blumenthal Income tax for big businesses	1. USD1.57m 2. USD2.085b	n/a		1. 3.2%	Within firm personnel 55%, within firm non personnel 30%, outside 15% Federal tax 70%, state and local tax 30% Within firm: 70% tax department, 30% others	
12	US 1997 Slemrod and Blumenthal Big business	1. USD1,899m 2. USD1.64b	n/a		1. n/a	In-house personnel 64.9%, in-house non-personnel 17.2%, outside 17.9% Tax planning 47%, tax guidance 27%, keeping records 21%, others 4%	n/a
13	Canada 1989 Vaillancourt Personal and Employer	1. Self-preparers USD29,749, all USD32,032 2. USD$2.75b			1. 3.5% 2. n/a		

14	US Slemrod-Venkatesh 2002 Income tax	1. USD134,954 2. USD$29.9 billion	n/a	n/a	1. 28-29% 2. n/a	Rank: internal personnel, external assistance, internal non-personnel Regressive	State taxes 25% Federal 75%
15	US PwC 2006 Retail tax	1. Small USD2,388, Medium USD5,279, Large USD118,233 2. n/a	1. 19% of CC 2. n/a		1. 3.09% 2. 0.19%	Rank: preparing returns, documentation, training Regressive	
16	Canada 1997 Income tax big business Erard	1. USD925,112 2. n/a	n/a		1. 2.7% 2. n/a	In-house personnel 55.1%, in-house non personnel 24.6%, external 20.3%	n/a
17	Canada 1998 Plamondon (summary) All taxes	1. n/a 2. USD2,286m-4,471m			1. 1.5% 2. 0.4%	n/a	Federal 74%, local 26% Among federal taxes: payroll 45%, GST 36%, CIT 18%, and excise 1%
18	Canada Charron, Chow 2008 All taxes	1.CND18,321 2.CND12.6 billion			1. 2.7%	Rank: paperwork, others Regressive	Rank: payroll taxes, income tax, GST
19*	Canada Arthur Andersen 1985 Federal sales tax				1. 5.85% 2. n/a		
20*	USA Arthur D. Little 1988 All taxes	1. 5,427 hours				Record keeping 50%, forms preparation 29%	
21*	USA GAO 1995 VAT					n/a (only administrative costs)	
	AUSTRALASIAN COUNTRIES						
22	Australia Pope et. Al WST 1990-91	1. Internal: smallest AUD1,813, largest AUD31,833. External, small AUD2,130,	1. Total: (AUD21.5m) negative cash flow benefit (positive for smallest companies)	AUD200.9m	1. 1.9% 2. n/a	Time value 79.2%, special difficulties 3.7%, dispute costs 12.3%, planning costs 4.4%	n/a

		large AUD18,333 2. AUD179m	2. n/a			Regressive	
23	Australia Public companies income tax Pope et. al 1986-87	1. AUD62,604 2. AUD646-1,341m	1. AUD954m= 16.9% of tax revenue 2. n/a	AUD384m	1. Gross 11.4%-23.7% 2. n/a	Computational costs 55%, planning 45% External costs 37% of computational costs, and 67% of planning costs Regressive	n/a
24	Australia 1993 Pope Employee related taxes	1. PAYE AUD376-AUD1,771, FBT AUD912-13,724, PPS AUD6,989, Payroll tax AUD1,391-105,261 2. PAYE AUD629m, FBT AUD128m, PPS n/a, Payroll tax n/a	1. PAYE AUD839m (1.9%), FBT AUD76m (6.5%), PPS AUD10-244,584, Payroll tax n/a 2. n/a	PAYE (AUD201.1m) FBT $51.4m, PPS n/a, Payroll tax $206m	1. PAYE 1.4% gross, FBT 10.9%, PPS n/a, Payroll tax 3.6%. Overall 1.7%	PAYE: Internal 87.7%, external 12.3%, labour 85.2%, professional fees 12.3%, others 2.5% FBT: internal 56%, external 44% PPS Internal costs 98.5%, external 1.5%	n/a
25	Australia 1994 Pope Companies income tax	1. AUD5,057-20,220 2. AUD3,245m	1. AUD1.193.7m 2. n/a	$2,052m	1.14.5% 2.n/a	Internal 48%, external 52% Computational 76.2%, planning 23.8% Labour costs 43%, professional fees 52.3%, others 4.6% Regressive	n/a
26	Australia 1994-1995 Evans et al Business taxation	1. AUD1,898 2. AUD8,874m	1. AUD1,781m 2. AUD2,446m	AUD4,647m	1. 9.3% 2. 1.02%	Time cost 67%, external 33% Regressive	Income tax 42%, PAYE 14.8%, WST 11.2%, PPS 10.3%
27	Australia Evans et al 2002 TVM	1. Small $50,333, Medium $707,487, Large $821,190 2. n/a					
28	New Zealand 1992 Sandford and Hasseldine Business taxes	1. PAYE AUD929 to 9,539, FBT AUD223 to AUD2,332, GST AUD665	1.PAYE AUD53m, FBT n/a, GST AUD176m, business tax n/a	PAYE AUD141m GST AUD276m	1. PAYE 1.92%, FBT 1.7%, GST 7.3%, business income tax	PAYE owner and directors 57.9%, other staff 30%, external 9%, others 3%	n/a

		to AUD9,615, business tax AUD2,131 to AUD43,436 2. PAYE AUD195m, FBT AUD8.5m, GST AUD433m, business income tax AUD1,226m			19% 2. 2.5% GDP	FBT internal 80%, external 20% GST internal 85%, external 15% Business tax time value 54%, advisor 46% Regressive	
29	Malaysia 1995 Loh, et. Al Corporate income tax	1. RM68,836 2. n/a	n/a		1. 0.36% 2. n/a	Computational 61%, planning 39% Internal 28%, external 72%	
30	Singapore 1994 1995 Ariff, et. Al Corporate Income Tax	1. SGD78,396 2. n/a	n/a		1. 0.4% 2. n/a	Computational $99,354, planning $38,084 Internal $32,940, external $45,456 Regressive	n/a
31	Singapore 1996 1997 Ariff, et. Al Corporate Income Tax	1. SGD54,615	n/a		1. n/a 2. n/a	Computational $27,446, planning $27,169 Internal $22,698, external $31,917 Regressive	n/a
32	Hong Kong 1999 Cheung et. Al Corporate tax	3. HKD346,483 4. n/a	n/a		n/a	Computational $255,446, planning $91,037 Internal staff 30%, external professional 70% Regressive	n/a
33	India Corporate income tax 2002 Chattopadhyay and Das-Gupta	1. R6475 per employee 2. 4.33%-13% of tax paid	1. 48-53% of CC 2. 33-38% of CC	15% of CC	1. Between -0.72% and 0.62% 2. n/a	External 39%, internal 61% Regressive	n/a
	TRANSITION COUNTRIES						
34	Slovenia Klun 2004 Income tax	1. 1,507k SIT			1. 4.22% 2. 1%	Labour 57.8%, consultation 26.1%, others 16.1%	VAT 66.9% CIT 23% Deducted tax 10%
35	Armenia Jrbshyan-Harutyunyan 2006	1. 396,706 2. 13,538m			1. 11.5% 2. 1.1%	Rank: information gathering, measuremen	

	All taxes					t Regressive	
36	Ukraine FIAS 2009 All taxes	1. $3,769			1. n/a 2. 1%	Rank: tax accounting, visit tax office, inspections Regressive	Rank: VAT, profit tax, pension funds
	OTHER COUNTRIES						
37	11 countries Cordova-Novion, Young 2002 Business taxes	1. USD30,000 2. n/a				Regressive	Top: Sales tax Bottom: Tax deduction
38	Mauritius Pillai 2000 VAT	1. Rs14.3m 2. n/a	n/a	n/a	n/a	regressive	n/a
39	Czech Republic Vitek et al. 2004 All taxes	1. CZK50,631 2. n/a	n/a	n/a	14.9% n/a	Regressive	n/a
40	Ukraine FIAS 2009 All taxes	1. 1,335 hours ($2,940) 2. n/a	n/a	n/a	n/a n/a	regressive	Taxes ranking: VAT, profit tax, pension funds
41	European countries EU Project 2009 Cross border taxes	1. CCTB saving: 9.84% time and 2.64% money. CCCTB saving: 69.5% time and 62.35% money 2. n/a	n/a	n/a	n/a	n/a	n/a
42	Ethiopia Yesegat 2009 VAT	1. ETB 8,963 per taxpayer 2. ETB 108,138,032	n/a	n/a	1. 2.04% 2. 0.13%	Regressive	n/a
43	Nepal IFC 2012 All taxes	1. 9,382 rupee 2. n/a	n/a	n/a	n/a	Regressive	n/a
44	Botswana Makara 2013 VAT	1. BWP6,902 (2009) and 7,201 (2010) 2. BWP110 million (2009) and 169m (2010)	n/a	n/a	1. 2.9% (2009) and 3.6% (2010) 2. 0.1% both years	regressive	n/a

Note: * the results of these researches could not be attained during the writing of this thesis. Figures are taken from Evans (2003)

APPENDIX E: COMPLIANCE COSTS STUDIES SINCE 2000

No	Year of publication Year reviewed	Author(s) Country studied	Taxes Taxpayers	1. Methodology 2. Sample frame 3. Respondents 4. Response rate (%)	Major results
1	2000 1998/99	Pillai Mauritius	Hotel industries VAT	1. Postal and interviews 2. 82 3. n/a 4. 26.9	Total CC Rs14.3m (commencement 9.8 plus 4.5 routine) Regressive
2	2001 1998 and 1999	Delgado Lobo, Salina-Jimenez, Sanz Spain	Income tax Individuals	1. Interview 2. 2500 3. 2,388 (1998) and 2,449 (1999) 4. 95.5 and 98	Reform in Spanish individual tax results in 28% decrease of CC Decrease in CC from 1.8% to 1.3% of tax revenue Average time used decrease by 1 hour 25 minutes Total money spent decline from 20,277 million pesetas to 19,875 Psychological costs drop
3	2002 2001	Slemrod Venkatesh United Sates	Income Tax Large and Mid-Size Businesses	1. Mail survey 2. 2,500 3. 225 4. 9	Average CC increase with increasing size of business CC is regressive in terms of size Proportion ranking: internal personnel, external assistance, internal non-personnel Average CC is $134,954 Total CC national is $29.9m billion, 25% for state taxes and 75% for federal taxes CC is 28%-29% revenue
4	2002 1998-2000	Pope Rametse Australia	GST Small businesses start-up	1. Mail survey 2. 4,000 3. 868 4. 27	Start- up CC for GST is $5,006 and 131 hour Total start- up CC is $7,626 Start-up CC is regressive in terms of size One-third of respondents expect managerial benefits
5	2002 2002	Evans, Tran-Nam, Jordan Australia	Tax Value Method Business taxpayers	1. Case study 2. n/a 3. 40 4. n/a	Transitional costs for business taxpayers in average: large $757,859, medium $4,192, small $8,467 Psychological costs not possible to quantify Transactional costs for tax practitioners in average: large $821,190, medium $707,487, small $50,333 Majority of businesses and practitioners say no recurrent costs
6	2002 2000	Hasseldine and Hansford U.K.	VAT Businesses	1. Mail survey 2. 6,232 3. 1,449 4. 23	Increased CC are strongly linked to business size Three industries (manufacturing, dealing, and service) face lower CC compared to others Businesses with computer face higher CC than ones without
7	2002 1999-2000	Tran-Nam and Glover Australia	GST Transitional costs for small businesses	1. Case study 2. n/a 3. 31 4. n/a	Average gross transactional costs is $7,673; tax deductibility benefit $2,640; direct subsidy $181; net transitional costs $4,853 Source of costs ranking: time costs, computer, internal

					training Psychological costs (stress) fall over time Cause of stress: time loss and worry
8	2002 1998-1999	Cordova-Novion and Young 11 countries (Australia, Austria, Belgium, Finland, Iceland, Mexico, New Zealand, Norway, Portugal, Spain and Sweden)	Business tax Businesses	1. Mail survey 2. 22,544 3. 7,859 4. 35	Average SME's CC for tax $30,000, or $4,100 per employee Overall CC ranking: Tax regulations, employment, and environment CC for tax is regressive in term of company size Ranking of tax's CC: sales tax the highest, tax deduction the lowest
9	2003 2002	Evans UK and Australia	Capital gains tax individuals	1. Mail survey (a) Australian and (b) UK 2. (a) 321 (b) 320 3. (a) 94 (b) 89 4. (a) 29% (b) 28%	CC are high as regard to the amount of tax, revenue collected, CC in the past, and CC of other taxes CC are higher than other taxes because of complexity, frequent legislative change, record-keeping requirements, cost base issues, valuation issues, poor legislative drafting CC are regressive Because of frequent changes, CC has not fallen over time
10	2003	CPA Australia Australia	Business taxes Small businesses	1. Interview with a. Small businesses, b. CPA 2. n/a 3. 701 and 105 4. n/a	Annual income tax return is prepared by: external accountant 79%, proprietor 15%, staff 12% Other tax returns prepared by external accountant 32%, proprietor 23%, staff 23% In past two years, 30% of respondents and 89% of consultants say the costs of compliance of taxes increase
11	2003 2000-2001	Guyton, O'Hare et al. United States	Income tax Individuals (wage & Investment (WI) and Self-employed (SE))	1. Interview 2. n/a 3. 6,366 WI and 9,081 SE 4. 60.5% WI and 56.4% SE	National CC is 3.21 billion hour and $18.8 billion Average CC for SE taxpayer is greater than WI taxpayer Time spent rank: software-tax professionals-self prepared returns Money spent rank: professionals-software-self prepared If time spent is monetized, total CC is $67-99 billion
12	2004 2000	Klun Slovenia	Income tax Individuals	1. 50% mail, 50% visit 2. 350 3. 222 4. 64	Average time spent 1.7 hours Costs vs. revenue ratio: 2.5% Time cost is 89.6% of CC CC as % of income is regressive
13	2004 2002	Klun Slovenia	Income tax Companies	1. Mail survey & interview 2. 200 3. 126 4. 64	Average CC per company is 1,507 thousand SIT CC is 4.22% of tax revenue CC is 1% of GDP Structure of costs: labor 57.8%, consultation 26.1%, others 16.1% Structure of costs based on tax: VAT 66.9%, CIT 23%, deducted tax 10%
14	2004 2001/2002	Blazic Croatia	All taxes Small	1. Interview 2. n/a	CC is 0.8% of GDP CC is almost 100% of tax

			businesses	3. 257 4. n/a	revenue The biggest proportion of CC is VAT Psychological cost not significant CC is regressive in terms of number of employees and turnover Time of owner is the biggest contributor of CC
15	2004 2003	Alexander, Bell et al. New Zealand	All compliance costs Small business	1. Direct measurement through 13-week diary 2. 70 3. 25 4. 36	The most CC relate to taxes Most CC do not benefit the businesses Preparing GST and PAYE returns are dominant in taxes-related CC
16	2004 2001	Vitek et al. Czech republic	All taxpayers All taxes	1. Interviews 2. 27 3. 27 4. 100	Average CC per taxpayer: CZK3,602 (PIT), 50,631 (CIT), 6,649 (VAT) CC of revenue: 27.8% (PIT), 14.9% (CIT), 1.9% (VAT)
17	2005 2003	Brunton New Zealand	All taxes Small and medium enterprises	1. Mail survey 2. 5620 3. 1,907 4. 44-45	Internal costs, average 76.7 hours (56.3 owners, 18.4 paid employees, 3.4 unpaid helpers) Internal hours based on taxes: GST 44.2, Income tax 29.2, PAYE 27.5, FBT 12.8 hours Monetized time spent, average $1,224 Monetized time spent based on taxes: GST $1.852, PAYE $937, FBT $416 External costs: 80% use it Mean external costs: $1,465 External costs based on taxes: GST $480, Income tax $1,202, PAYE $141, FB $149 Combined internal and external, average $4,024 Psychological: 51% less than moderate stress, 24% moderate, 23% more than moderate stress
18	2005	Chittenden, Kauser et al. UK	PAYE-NIC taxes Small businesses	1. Mail survey 2. 10,000 3. 431 4. 4.31	CC is regressive in terms of the number of employees The bigger the company, the more costs relate to internal staff CC per employee range from £335 (smallest companies to £21 (biggest companies) Psychological costs range from £458 to £18 Opportunity costs range from £402 to £17
19	2006 2003	PwC United States	Retail taxes All taxpayers	1. Mail survey 2. 13,872 3. 796 4. 8	Gross CC=3.09% of national sales tax Gross CC=0.19% of taxable sales Average gross CC for small businesses is $2,388; medium $5,279, and large $118,233 CC for small businesses is six times larger than larger businesses in term of tax collected and taxable sales Benefits for businesses are vendor discount and net float

					Vendor discount is 0.5% of sales Net float is 0.1% of sales Overall vendor discount + net float is 19% of gross CC Top three costs are preparing returns, documentation, training
20	2006 2004	DeLuca, Stilmar et al. United States	All taxes Small businesses	1. Mail survey and interview 2. 20,000 3. 7,243 4. 36.2	Total time spent 1,709-1,944 million hours, average 236-255 hour per company Total money spent $14,976-16,411 million, average $2,068-2,266 Time spent rank: record keeping, paid professionals, tax planning time Money spent rank: paid professionals, software, others Money spent per employee: 349-383 hours Monetized time and money spent: $1,346-1,458 per company As % of revenue: money spent 0.2-0.3%, money + time 0.9-1% As % of total asset: money spent 0.4-0.5%, money + time 1.6-1.8% As % of tax receipt: money spent 0.2-0.3%, money + time 0.9-1%
21	2006 2005	Skatteverket Sweden	VAT companies	1. Mail survey and interview 2. 5,463 3. 2,077 4. 43	National CC is 6.3 SEK thousand millions; 73% of 0-4 employees businesses and 4% of more than 500 employees businesses Average CC 9,516 SEK Structure of internal CC: preparation 27%, filling returns 62%, finishing 12% CC is 3% of VAT revenue
22	2006 2003	Jrbshyan and Harutyunyan Armenia	All taxes Companies	1. Interview 2. 1300 3. 328 4. 25.2	CC is regressive in terms of number of employees and sales volume Industry sector account the biggest average CC compared to other sectors Information gathering costs and measurement costs account for the biggest components of CC CC is 1.1% of GDP CC is 11.5% of tax revenue
23	2007 2006	FIAS South Africa	All taxes Small businesses	1. Electronic survey 2. 27,747 3. 3,429 4. 15.75	Recurring burden (preparing returns) is larger than once-off burdens (audits, inspections, objections) Basic service of tax accounting costs R12,185 in average per year Total service costs in average R36,343 per year Most burdensome tax is provisional tax
24	2008 2007	Charron, Chow et al. Canada	All taxes companies	1. Internet mail questionnaires	Global CC amounts to $12.6 billion per year; of that 90%

				2. n/a 3. 6,939 4. n/a	is on small and medium companies Average CC per company is $18,321/year CC is regressive in terms of number of employees In terms of time and money, the most consuming is payroll taxes, followed by income tax and GST CC is 2.7% of tax revenue The biggest contributor of CC is the amount of paperwork
25	2009 n/a	Reekmans and Simoens Belgium	All taxes Small businesses	1. internet mail questionnaires 2. 10,300 3. 151 4. 1.87	VAT, social security tax, and income tax account for 82% of CC; VAT alone is 50% 0f CC Average CC is £17,457 Total CC is 5.07% of value added CC is regressive in terms of the number of employees Based on sectors, hotels and restaurants have highest CC per company; construction is the lowest
26	2009 2007	FIAS Ukraine	All taxes Companies Proprietors	COMPANIES: 1. Interview 2. 8,000 3. 2,082 4. 26 PROPRIETORS: 1. Interview 2. 2,678 3. 1,004 4. 43	COMPANIES: Average time required per year is 1,335 hours Largest component of CC is staff time Costs ranking: tax accounting, visit to tax office, inspections Taxes ranking: VAT, profit tax, pension funds Average CC is $3,769 per company CC is regressive in terms of turnover Total CC is 1% of GDP PROPRIETORS: Average time used: 155 hour Large component is owners' time Costs ranking: tax accounting, visit, inspections Tax ranking: personal income tax, fixed taxpayers Average CC is $438 CC is regressive in terms of turnover
27	2009	EU Project European countries	Cross border taxes under two different three regimes (current, CCTB and CCCTB) Medium and Large companies	1. Expert calculation on different scenarios in 6 countries 2. n/a 3. n/a 4. n/a	For large companies, CCTB could save 9.84% time and 2.64% money in CC. CCCTB could save 69.5% time and 62.35% money For medium companies, CCTB could save 10.74% time and 0.54% money. CCCTB could save 71.12% time and 0.18% money
28	2009 2005/06	Yesegat Ethiopia	Business VAT	1. Interviews 2. 269 3. 193 4. 72	Considered "low" Regressive Total CC 2.04% of tax revenue and 0.13% of GDP
29	2009 2006	Abdul Jabbar Malaysia	Small and medium business	1. Mail survey 2. 1,300 3. 175	CC per company RM9,259 National CC RM1,084 milliom After self-assessment CC

			Income tax	4. 15.7	declines 58% CC 8% of tax revenue
30	2010	IFAS Yemen	All taxes Small businesses	n/a	Internal report, not published
31	2010	IFAS Peru	All taxes Small businesses	n/a	Not yet published
32	2010 2008	IFC Uzbekistan	Business and individual All taxes	1. Interview 2. 2,746 3. 1,280 and 142 4. 47 and 83	Regressive CC 15.9% of sales, 0.06% of sales for big business CC 0.75% of GDP Total CC business $202m, individual $6m
33	2011 2000	Mathieua, Pricea et al. UK	All taxes Individuals	1. Mail survey 2. 1,000 3. 320 4. 32	Average time is 4.5 hours a year More than 27% use tax consultants Total CC is £285 Positive correlation of CC and income, education, and difficulty in attending to tax affairs Age and marital have no effect on CC
34	2011	Reekmans and Simoens Belgium	Small and medium business All taxes	1. Web survey 2. 10,300 3. 151 4. 1.8%	Average costs £27,457 per year 50% costs for VAY Largest CC-primary manufacturing regressive
35	2011 2010	IFC Armenia	Private and individual All taxes	1. Face to face interview 2. 750 business, 250 individuals 3. Same as above 4. 100	Business: 50 working days (400 hours, $1,363) Individuals: 118 hours ($213) Biggest proportion: tax accounting (80%) regressive
36	2012 2009/10	IFC Nepal	Business All taxes	1. Interview 2. 1000 3. 1000 4. 100	Higher costs for VAT Average CC 9,382 rupee Regressive
37	2012 2011	Smulders et al. South Africa	Small business All taxes	1. Electronic survey 2. 88,057 3. 5,865 4. 6.7%	Mean CC R63,328 per year, of which R53,356 is internal Managerial benefits could not be quantified 75% agree on managerial benefit, most time consuming VAT 38% of the internal costs Regressive
38	2012	Hansford and Hesseldine UK	Small and medium All taxes	1. Email survey 2. 9,380 3. 41 4. 0.4%	Average time used on VAT 219 hours 85% use external services VAT most time consuming
39	2013 2010	Chunhachatrachai Thailand	Small and medium business CIT	1. Mail survey 2. 2000 3. 206 4. 10.41%	Average CC 253,708, of which internal staff costs (72,927 baht), miscellaneous costs (117,357 baht) and external costs (63,425 baht). CC>tax revenue (41,210 compared to 38,509)
40	2013 2010	Ibrahim Malaysia	Individual Personal income tax (e-filing)	1. Mail survey 2. 2600 3. 242 4. 10	E-filing costs RM658 per taxpayer, while the manual compliance costs were RM670 Time costs can save 70% if e-filing
41	2013 2009/10/11	Makara and Pope Botswana	VAT Business	1. Hand distributed survey 2. 700 3. 187	High and regressive Total CC BWP110 million and 169 million 2.9% and 3.6% of VAT revenue

				4. 27	0.1% GDP

APPENDIX F: QUESTIONNAIRE (ENGLISH VERSION)

Curtin University

SCHOOL OF ECONOMICS AND FINANCE
CURTIN BUSINESS SCHOOL
GPO Box U1987 Perth, Western Australia 6845
Phone: +61 8 9266 7796 or +61 8 9266 7756
Fax No: +61 8 9266 3026

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

Dear Taxpayer,

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

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

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

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

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

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

Sincerely yours,

Budi Susila
Researcher, PhD Program

Professor Jeff Pope
Research Supervisor, School of Economics and Finance

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

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

1 GENERAL INFORMATION

1.1 In what sector does your company mainly operate?

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

1.2 Where is your company's main activity located?

☐ Java
☐ Sumatera
☐ Sulawesi
☐ Others

1.3 How long has your company operated?

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

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

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

1.5 How many employees does your company have?

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

1.6 What is your company's turnover in 2010?

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

1.7 What are the total assets of your company?

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

2 COMPLIANCE COSTS (ALL QUESTIONS ARE RELATED TO YEAR 2010)

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

Answer: [ ] employees

2.2 How much are your routine compliance costs every month?

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

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

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

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

2.4 Please split these costs into direct and indirect costs.

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

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

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

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

Other managers	

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

Answer: Rp [ ] million/month

2.7 How much are non-routine costs (additional costs) in your company to prepare and submit the last annual Corporate Tax Income returns? Note: do not include routine costs above

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

2.8 In 2010, was your company audited?

Answer: ☐ yes, ...times →please continue to question 2.9
☐ no →please continue to question 2.10

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

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

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

Answer: ☐ yes, ...times →please continue to question 2.11
☐ no →please continue to question 2.12

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

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

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

Answer: ☐ yes, ...times → please continue to question 2.13

☐ no → please continue to question 3

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

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

3 OTHERS

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

3.1 Do you agree with the following statements?

STATEMENTS:	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
TAX ADMINISTRATION					
In general, tax administration is now better	☐	☐	☐	☐	☐
Information/computer system in the tax office makes it easier to comply with tax regulation	☐	☐	☐	☐	☐
It is now easier to obtain tax ruling clarification	☐	☐	☐	☐	☐
Tax objection/appeal procedure is now easier	☐	☐	☐	☐	☐
Tax laws/regulations are now simpler	☐	☐	☐	☐	☐
TAX OFFICE					
Tax return submission is now simpler	☐	☐	☐	☐	☐
Tax officers are now more competent	☐	☐	☐	☐	☐
Service in Tax Office is now better	☐	☐	☐	☐	☐
Audit process is now simpler	☐	☐	☐	☐	☐
I am satisfied with the service provided by current tax office	☐	☐	☐	☐	☐
ACCOUNT REPRESENTATIVES (ARs)					
AR is helpful	☐	☐	☐	☐	☐
AR is knowledgeable on tax laws/regulations	☐	☐	☐	☐	☐
The existence of AR can reduce company's spending	☐	☐	☐	☐	☐
The existence of AR increases the costs because more documents or explanations are needed	☐	☐	☐	☐	☐
The existence of AR does not affect the compliance costs	☐	☐	☐	☐	☐

The existence of AR can reduce pressure on my company	☐	☐	☐	☐	☐
For my company, the AR is not needed	☐	☐	☐	☐	☐

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

Answer: Rp [ ] million/month

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

Answer: Rp [ ] million/month

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

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

3.5 How much did you pay taxes in 2010?

Corporate Income Tax	☐ Rp0 –Rp100 millions	☐ Rp100mil-Rp500 mil	☐ Rp500 mil-Rp1 B
	☐ Rp1 B-Rp10 B	☐ Rp10B-Rp50 B	☐ more than Rp50 B
Value Added Tax (PPN):	☐ Rp0 –Rp100 millions	☐ Rp100mil-Rp500 mil	☐ Rp500 mil-Rp1 B
	☐ Rp1 B-Rp10 B	☐ Rp10B-Rp50 B	☐ more than Rp50 B
Withholding Taxes (PPh 21, 22, 23, 26 etc.):			
	☐ Rp0 –Rp100 millions	☐ Rp100mil-Rp500 mil	☐ Rp500 mil-Rp1 B
	☐ Rp1 B-Rp10 B	☐ Rp10B-Rp50 B	☐ more than Rp50 B

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

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

4 FURTHER INFORMATION

Are you willing to be contacted later for further questions that may arise from this questionnaire?
Note: your response will be treated with strict confidence, and solely for the purpose of this research.

Answer: ☐ no
☐ yes → please provide your contact details:

Name :
Telephone number :

THIS IS THE END OF THE SURVEY. PLEASE ENCLOSE YOUR COMPLETED QUESTIONNAIRE IN PROVIDED ENVELOPE AND MAIL IT TO THE NEAREST POST OFFICE. NO POSTAGE NECESSARY. THANK YOU VERY MUCH FOR YOUR COOPERATION.

APPENDIX G: QUESTIONNAIRE (BAHASA INDONESISA VERSION)

Curtin University

SCHOOL OF ECONOMICS AND FINANCE
CURTIN BUSINESS SCHOOL
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Phone: +61 8 9266 7796 or +61 8 9266 7756
Fax No: +61 8 9266 3026

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

Dear Taxpayer,

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

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

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

Should you have difficulties in completing the questionnaire, please feel free to contact me at budi.susila@postgrad.curtin.edu.au. This survey has been approved by Curtin University Human Research Ethics Committee with the approval letter number E&F/002/2011*.

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

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

Sincerely yours,

Budi Susila
Researcher, PhD Program

Professor Jeff Pope
Research Supervisor, School of Economics and Finance

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

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SURVEI MENGENAI BIAYA KEPATUHAN PAJAK PERUSAHAAN BESAR DI INDONESIA

Dengan hormat,

Dengan ini kami sampaikan bahwa School of Economics and Finance adalah bagian dari Curtin Business School, Curtin University, Western Australia. Sebagai salah satu persyaratan di dalam program PhD-nya, tahun ini kami mengadakan penelitian mengenai biaya kepatuhan pajak di Indonesia,

Penelitian tersebut bertujuan untuk menyelidiki seberapa besar biaya yang dikeluarkan oleh perusahaan besar di Indonesia dalam rangka memenuhi kewajiban perpajakannya, di luar pajak yang dibayarkan.Dengan penelitian tersebut akan dapat diketahui secara makro pengorbanan yang dilakukan masyarakat dalam rangka menyumbang penerimaan pajak bagi pemerintah Indonesia. Selain itu hasil penelitian akan dapat diperbandingkan dengan data serupa dari negara lain untuk mengetahui apakah secara relatif beban biaya kepatuhan di Indonesia lebih besar atau lebih kecil. Definisi perusahaan besar adalah perusahaan dengan omzet di atas Rp3 miliar setahun.Perusahaan Anda terpilih menjadi salah satu sampel dari penelitian tersebut.

Dengan ini kami memohon Anda untuk mengisi kuesioner terlampir, yang kira-kira memerlukan waktu setengah jam. Kuesioner tersebut bersifat anonim, dalam artian Anda tidak perlu mencantumkan identitas perusahaan Anda, dan kami juga tidak akan dapat melacak identitas Anda berdasarkan data yang Anda isikan di dalam kuesioner tersebut karena tidak terdapat kode ataupun nomor pada kuesioner yang bisa merujuk kepada identitas perusahaan Anda.Keikutsertaan Anda di dalam survey ini bersifat sukarela.Data yang Anda isikan bersifat rahasia dan tidak akan kami ungkapkan kepada Departemen Keuangan Republik Indonesia/Direktorat Jenderal Pajak, kecuali rekomendasi umum menyangkut biaya kepatuhan secara nasional. Apabila ternyata biaya yang ditanggung Wajib Pajak terlalu besar, maka kami akan merekomendasikan untuk melakukan langkah-langkah untuk meminimalkan biaya ini.

Apabila Anda mengalami kesulitan di dalam mengisi kuesioner ini, Anda dapat menghubungi kami melalui email ke budi.susila@postgrad.curtin.edu.au.Penelitian ini sudah mendapatkan persetujuan dari Curtin University Human Research Ethics Committee dengan surat persetujuan bernomor E&F/002/2011*

Apabila Anda telah selesai mengisi kuesioner tersebut, mohon untuk dapat memasukkan ke dalam amplop terlampir (tidak perlu ditempel perangko) dan mengeposkannya ke Kantor Pos terdekat.

Demikian, dan kami mengucapkan terima kasih sebesar-besarnya atas bantuan Anda dalam kegiatan survey ini.

Hormat kami,

Budi Susila
Researcher, PhD Program

Professor Jeff Pope
Research Supervisor, School of Economics and Finance

*** Apabila diperlukan, verifikasi persetujuan ini bisa dimintakan secara tertulis kepada Curtin University Human Research Ethics Committee, c/- Office of Research and Development, Curtin University of Technology, GPO Box U1987, Perth, 6845 atau melalui telepon nomor +61 9266 2784.*

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REMINDER:

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

Dear Taxpayer,

This is a friendly reminder that according to our knowledge, you have not responded to our questionnaire regarding the above survey which was sent to you a couple of weeks ago. Considering the importance of your response in this research, hereby we would like to request you once again complete the questionnaire attached to this letter. When you have completed the questionnaire, please enclose it in the envelope provided and mail it to the nearest post office. No stamp is needed.

If you have completed the questionnaire before receiving this letter, please ignore this letter and accept our apology.

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

Sincerely yours,

Budi Susila
Researcher, PhD Program

Professor Jeff Pope
Research Supervisor, School of Economics and Finance

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FINAL REMINDER:

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

Dear Taxpayer,

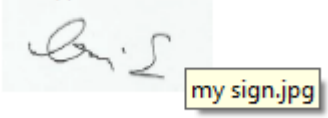
This is a friendly reminder that according to our knowledge, you have not responded to our questionnaire regarding the above survey which was sent to you a couple of weeks ago. Considering the importance of your response in this research, hereby we would like to request you once again complete the questionnaire. When you have completed the questionnaire, please enclose it in the envelope provided and mail it to the nearest post office. No stamp is needed.

If you have completed the questionnaire before receiving this letter, please ignore this letter and accept our apology.

If you are not willing to complete the questionnaire, please kindly fill in the attached form with only one question and return it to us using the envelope provided.

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

Sincerely yours,



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PENGINGAT:

SURVEI MENGENAI BIAYA KEPATUHAN PAJAK PERUSAHAAN BESAR DI INDONESIA

Dengan hormat,

Dengan ini kami sampaian bahwa berdasarkan administrasi kami, mungkin karena kesibukan Anda, Anda belum sempat merespon kuesioner yang telah kami sampaikan beberapa waktu yang lalu mengenai survey di atas. Mengingat pentingnya pengisian kuesioner tersebut, maka dengan hormat dengan ini kami mohon agar Anda bersedia mengisi kuesioner tersebut.

Apabila Anda telah selesai mengisi kuesioner tersebut, mohon untuk dapat memasukkan ke dalam amplop terlampir (tidak perlu ditempel perangko) dan mengeposkannya ke Kantor Pos terdekat.

Apabila ternyata Anda sudah menjawab kuesioner termaksud sebelum ini, mohon agar surat ini diabaikan, dan kami mohon maaf atas hal ini.

Demikian, dan kami mengucapkan terima kasih sebesar-besarnya atas bantuan Anda dalam kegiatan survey ini.

Hormat kami,

Budi Susila
Researcher, PhD Program

Professor Jeff Pope
Research Supervisor, School of Economics and Finance

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Apabila Anda telah selesai mengisi kuesioner tersebut, mohon untuk dapat memasukkan ke dalam amplop terlampir (tidak perlu ditempel perangko) dan mengeposkannya ke Kantor Pos terdekat.

Apabila ternyata Anda sudah menjawab kuesioner termaksud sebelum ini, mohon agar surat ini diabaikan, dan kami mohon maaf atas hal ini.

Apabila Anda tidak bersedia mengisi kuesioner lengkap tersebut, mohon kiranya dapat menjawab SATU pertanyaan yang kami lampirkan bersama surat ini.

Demikian, dan kami mengucapkan terima kasih sebesar-besarnya atas bantuan Anda dalam kegiatan survey ini.

Hormat kami,

Budi Susila
Researcher, PhD Program

Professor Jeff Pope
Research Supervisor, School of Economics and Finance

Questioner ini terdiri dari 3 (tiga) bagian, yaitu Informasi Umum Perusahaan, Biaya Kepatuhan, dan Lainnya, yang masing-masing terdiri dari beberapa pertanyaan. Silakan beri tanda silang (x) pada ☐ yang sesuai, atau beri isian pada titik-titik yang disediakan, atau mengisi pada kolom yang sesuai.

1 INFORMASI UMUM PERUSAHAAN

1.1 Dalam sektor apa perusahaan Anda beroperasi?

- ☐ Perdagangan besar atau eceran
- ☐ Industri pengolahan (kayu, kertas, logam, makanan, dsb)
- ☐ Jasa keuangan/perantara keuangan
- ☐ Transpor, pergudangan, komunikasi
- ☐ Konstruksi
- ☐ Real estate, persewaan
- ☐ Pertambangan, penggalian
- ☐ Lain-lain (tidak termasuk di atas)

1.2 Di manakah lokasi utama kegiatan bisnis perusahaan Anda?

- ☐ Pulau Jawa
- ☐ Pulau Sumatera
- ☐ Pulau Sulawesi
- ☐ Lain-lain (tidak termasuk di atas)

1.3 Sudah berapa lamakah perusahaan Anda beroperasi?

- ☐ Lebih dari 10 tahun
- ☐ 5-10 tahun
- ☐ 1-5 tahun
- ☐ kurang dari 1 tahun

1.4 Sudah berapa lamakah perusahaan Anda terdaftar di KPP (Kantor Pelayanan Pajak) yang sekarang?

- ☐ Lebih dari 10 tahun
- ☐ 5-10 tahun
- ☐ 1-5 tahun
- ☐ kurang dari 1 tahun

1.5 Berapakah jumlah total karyawan di perusahaan Anda?

- ☐ di bawah 100 orang
- ☐ antara 100-500 orang
- ☐ antara 500-1,000 orang
- ☐ antara 1,000-5,000 orang
- ☐ di atas 5,000 orang

1.6 Berapakah besarnya peredaran usaha perusahaan Anda tahun terakhir?

- ☐ kurang dari Rp3 milyar
- ☐ antara Rp3 milyar-Rp10 milyar
- ☐ antaraRp10 milyar-Rp50 milyar
- ☐ antara Rp50 milyar-Rp100 milyar
- ☐ di atas Rp100 milyar

1.7 Berapakah total asset perusahaan Anda?

- ☐ kurang dari Rp3 milyar
- ☐ antara Rp3 milyar-Rp10 milyar
- ☐ antaraRp10 milyar-Rp50 milyar
- ☐ antara Rp50 milyar-Rp100 milyar
- ☐ di atas Rp100 milyar

2 BIAYA KEPATUHAN PAJAK (SELURUH PERTANYAAN BERHUBUNGAN DENGAN TAHUN KALENDER 2010)

2.1 Berapakah jumlah karyawan full-time di perusahaan Anda yang khusus menangani masalah perpajakan?

Jawab: Jumlahnya sebanyak [ ] orang

2.2 Berapakah biaya kepatuhan pajak RUTIN yang dikeluarkan perusahaan Anda SETIAP BULAN?

Biaya kepatuhan pajak adalah biaya yang dikeluarkan perusahaan untuk memenuhi kewajiban perpajakan, tidak termasuk pajak yang dibayarkan. Biaya kepatuhan pajak rutin adalah biaya yang rutin dikeluarkan setiap bulan tanpa memandang adanya kejadian tertentu (misalnya adanya kejadian pemasukan SPT Tahunan PPh Badan, keberatan, pemeriksaan, banding, dsb.)

BIAYA RUTIN	Jumlah setiap bulan
Gaji staf/manajer bagian pajak	Rp.
Lain-lain (ATK, transportasi, dll)	Rp.
Konsultan pajak/konsultan hukum	Rp.
GRAND TOTAL BIAYA RUTIN	Rp.

2.3 Jumlah biaya rutin yang dikeluarkan di atas adalah biaya untuk memenuhi kewajiban seluruh jenis pajak. Kira-kira berapakah bagian/prosentase seluruh biaya tersebut untuk masing-masing jenis pajak? Mohon dirinci perkiraan prosentase untuk tiap-tiap jenis pajak dengan mengisi tabel di bawah ini.

Jenis Pajak	Prosentase (%)
PPh Badan	
PPN	
Pajak Potput (PPh 21,22,23,26)	
Jumlah	100%

2.4 Mohon diperkirakan berapakah bagian/prosentase biaya di bawah ini yang berhubungan langsung atau tidak langsung dengan penghitungan pajak

Behubungan langsung artinya biaya dikeluarkan semata-mata bertujuan untuk penghitungan kewajiban pajak atau mempersiapkan dokumen yang diperlukan. Sedangkan tidak berhubungan langsung adalah yang tidak berhubungan dengan kewajiban teknis perpajakan, misalnya seminar perpajakan, in-house training, atau pembelian buku/software perpajakan

BIAYA RUTIN	Berhubungan langsung (%)	Tidak berhubungan langsung (%)	Jumlah (100%)
Gaji staf/manajer bagian pajak			100%
Lain-lain (ATK, transportasi, dll)			100%
Konsultan pajak/konsultan hukum			100%
GRAND TOTAL BIAYA RUTIN			100%

2.10 Apakah pada tahun 2010 yang lalu perusahaan Anda mengajukan keberatan? (tanpa memandang jenis pajak dan masa/tahun pajaknya)

Jawab: ☐ ya, sebanyak .... kali→lanjutkan ke pertanyaan 2.11
☐ tidak→lanjutkan langsung ke pertanyaan 2.12

2.11 Apabila 'ya' berapakah total TAMBAHAN biaya yang dikeluarkan sehubungan dengan pengajuan keberatan tadi?

BIAYA TAMBAHAN KARENA MENGAJUKAN KEBERATAN	Jumlah biaya tambahan
Tambahan biaya gaji/lembur staf/manajer bagian pajak	Rp.
Tambahan biaya lain-lain (ATK, transportasi, dll)	Rp.
Tambahan biaya konsultan pajak/konsultan hokum	Rp.
GRAND TOTAL BIAYA TAMBAHAN	Rp.

2.12 Apakah pada tahun 2010 yang lalu perusahaan Anda mengajukan banding? (tanpa memandang jenis/masa/tahun pajak)

Jawab: ☐ ya, sebanyak ....kali →lanjutkan ke pertanyaan 2.13
☐ tidak →langsung lanjutkan ke pertanyaan nomor 3 dan seterusnya

2.13 Apabila 'ya' berapakah total TAMBAHAN biaya yang dikeluarkan sehubungan dengan pengajuan banding tadi?

BIAYA TAMBAHAN KARENA MENGAJUKAN BANDING	Jumlah biaya tambahan
Tambahan biaya gaji/lembur staf/manajer bagian pajak	Rp.
Tambahan biaya lain-lain (ATK, transportasi, dll)	Rp.
Tambahan biaya konsultan pajak/konsultan hokum	Rp.
GRAND TOTAL BIAYA TAMBAHAN	Rp.

3 LAIN-LAIN

3.1 Apakah Anda setuju dengan pernyataan-pernyataan berikut ini?

Pernyataan-pernyataan berikut behubungan dengan kondisi sekarang dibandingkan dengan kondisi 5 (lima) tahun sebelumnya; atau sebelum adanya struktur organisasi yang baru di Kantor Pajak (misalnya adanya posisi AR/Account Representative, pembagian seksi berdasarkan fungsi organisasi); atau pemindahan perusahaan Anda ke KPP yang sekarang. Silakan beri tanda silang (x) pada kolom yang sesuai

2.5 Secara umum, berapakah waktu yang terpakai oleh para pejabat perusahaan di bawah ini untuk kegiatan yang berhubungan dengan perpajakan? Kegiatan tersebut misalnya: rapat mengenai perpajakan perusahaan atau waktu yang dipakai untuk mensupervisi kegiatan staf/karyawan yang mengurus pajak.

Pejabat	Waktu yang dipakai selama sebulan (jam)
CEO/Direktur Utama	
Direktur Keuangan	
Manajer Akuntansi	
Manajer Lainnya	

2.6 Apabila waktu yang dipakai di atas dinilai dengan uang, berapakah kira-kira nilainya selama sebulan?

Jawab: Rp [ ] juta/bulan

2.7 Berapakah TAMBAHAN biaya yang dikeluarkan oleh perusahaan sehubungan dengan pemasukan SPT Tahunan PPh Badan yang terakhir? Catatan: tidak termasuk biaya yang rutin dikeluarkan setiap bulan sebagaimana pertanyaan nomor 2.2 di atas.

BIAYA TAMBAHAN KARENA PEMASUKAN SPT PPH BADAN	Jumlah biaya tambahan
Tambahan biaya gaji/lembur staf/manajer bagian pajak	Rp.
Tambahan biaya lain-lain (ATK, transportasi, dll)	Rp.
Tambahan biaya konsultan pajak/konsultan hukum	Rp.
GRAND TOTAL BIAYA TAMBAHAN	Rp.

2.8 Apakah pada tahun 2010 yang lalu perusahaan Anda diperiksa perpajakannya? (tanpa memandang jenis pemeriksaan maupun tahun/masa pajak yang diperiksa)

Jawab: ☐ ya, sebanyak .....kali →lanjutkan ke pertanyaan 2.9
☐ tidak →lanjutkan langsung ke pertanyaan 2.10

2.9 Apabila 'ya' berapakah total TAMBAHAN biaya yang dikeluarkan sehubungan dengan pemeriksaan tadi?

BIAYA TAMBAHAN KARENA DIPERIIKSA	Jumlah biaya tambahan
Tambahan biaya gaji/lembur staf/manajer bagian pajak	Rp.
Tambahan biaya lain-lain (ATK, transportasi, dll)	Rp.
Tambahan biaya konsultan pajak/konsultan hukum	Rp.
GRAND TOTAL BIAYA TAMBAHAN	Rp.

Pernyataan	Sangat setuju	Setuju	Netral	Tidak setuju	Sangat Tidak setuju
ADMINISTRASI PERPAJAKAN					
Secara umum, administrasi perpajakan sekarang lebih baik	☐	☐	☐	☐	☐
Sistem komputerisasi di DJP memudahkan dalam pemenuhan kewajiban perpajakan	☐	☐	☐	☐	☐
Sekarang lebih mudah mendapatkan klarifikasi/penegasan mengenai peraturan perpajakan	☐	☐	☐	☐	☐
Prosedur keberatan/banding sekarang lebih mudah	☐	☐	☐	☐	☐
Peraturan perpajakan sekarang lebih sederhana	☐	☐	☐	☐	☐
KANTOR PELAYANAN PAJAK					
Pelaporan SPT sekarang lebih sederhana	☐	☐	☐	☐	☐
Pegawai di KPP sekarang lebih kompeten secara teknis	☐	☐	☐	☐	☐
Pelayanan di KPP sekarang lebih baik	☐	☐	☐	☐	☐
Proses pemeriksaan sekarang lebih mudah	☐	☐	☐	☐	☐
Saya puas dengan pelayanan yang diberikan KPP sekarang	☐	☐	☐	☐	☐
ACCOUNT REPRESENTATIVES (AR)					
AR sangat membantu dalam pemenuhan kewajiban perpajakan	☐	☐	☐	☐	☐
AR menguasai peraturan perpajakan	☐	☐	☐	☐	☐
Keberadaan AR bisa menghemat pengeluaran perusahaan	☐	☐	☐	☐	☐
Keberadaan AR justru menambah biaya bagi perusahaan karena perusahaan harus repot menyediakan lebih banyak dokumen atau mendatangi KPP atau menyewa konsultan	☐	☐	☐	☐	☐
Keberadaan AR tidak berpengaruh terhadap biaya yang dikeluarkan perusahaan untuk memenuhi kewajiban perpajakan	☐	☐	☐	☐	☐
Keberadaan AR bisa membuat perusahaan merasa lebih tenang dalam masalah perpajakan	☐	☐	☐	☐	☐
Bagi perusahaan, lebih baik seandainya tidak ada AR (dikembalikan kepada sistem yang lama tanpa adanya AR)	☐	☐	☐	☐	☐

3.2 Apabila keberadaan AR ternyata menghemat pengeluaran Anda, kira-kira berapakah penghematan yang Anda dapatkan selama setahun?

Jawab: Rp [ ] juta/bulan

3.3 Apabila keberadaan AR ternyata justu menambah biaya bagi perusahaan Anda, berapakah kira-kira tambahan biaya yang harus dikeluarkan oleh perusahaan Anda setiap tahun?

Jawab: Rp [ ] juta/bulan

3.4 Apabila Anda menggunakan tenaga konsultan pajak selama tahun 2010, apa alasan Anda memakai jasa mereka? (boleh memilih lebih dari satu)

- ☐ karena sulit mendapatkan petunjuk dari Kantor Pajak mengenai peraturan perpajakan
- ☐ karena manfaatnya lebih besar dibandingkan biayanya
- ☐ karena merupakan kebijakan dari kantor pusat perusahaan (di luar maupun di dalam negeri)
- ☐ sebab lain, sebutkan ....

3.5 Berapakah jumlah pajak yang Anda bayarkan selama tahun 2010 (tanpa memandang masa/tahun pajaknya)

PPh Badan:	☐ Rp0 – Rp100 juta ☐ Rp1 M-Rp10 M	☐ Rp100 juta-Rp500 juta ☐ Rp10M-Rp50 M	☐ Rp500juta-Rp1 M ☐ di atas Rp50 M
PPN:	☐ Rp0 – Rp100 juta ☐ Rp1 M-Rp10 M	☐ Rp100 juta-Rp500 juta ☐ Rp10M-Rp50 M	☐ Rp500juta-Rp1 M ☐ di atas Rp50 M
Pajak Potput (PPh 21, 22, 23, 26 dsb.):	☐ Rp0 – Rp100 juta ☐ Rp1 M-Rp10 M	☐ Rp100 juta-Rp500 juta ☐ Rp10M-Rp50 M	☐ Rp500juta-Rp1 M ☐ di atas Rp50 M

3.6 Menurut pendapat Anda, dibandingkan perusahaan sejenis, biaya kepatuhan yang Anda keluarkan selama tahun 2010 adalah:

- ☐ jauh lebih kecil
- ☐ lebih kecil
- ☐ relatif sama
- ☐ lebih besar
- ☐ jauh lebih besar

4 TINDAK LANJUT

Apakah Anda bersedia dihubungi lebih lanjut untuk keperluan penelitian ini dalam bentuk wawancara?
Catatan: tindak lanjut penelitian hanya bersifat ilmiah. Nama Anda tidak akan pernah kami ungkapkan, dan Anda tidak perlu menyebutkan nama perusahaan Anda, dan kami juga tidak akan mengetahui nama perusahaan Anda.

Jawab: ☐ tidak bersedia
☐ bersedia

Apabila Anda bersedia, silakan mengisi data berikut ini (apabila tidak bersedia, silakan kosongkan):

Nama :
Nomor telepon :

INI AKHIR DARI SURVEY. SILAKAN MASUKKAN SURVEY YANG TELAH TERISI KE DALAM AMPLOP TERLAMPIR, DAN MENGEPOSKANNYA DI KANTOR POS TERDEKAT. ANDA TIDAK PERLU MENEMPELKAN PERANGKO.TERIMA KASIH BANYAK ATAS PARTISIPASI ANDA DI DALAM SURVEY INI