

Medium-Term Tax Administration Modernization¹

Directorate General of Taxes

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Vision

To be a model of taxpayer services which provides world class tax system and management that can be trusted and proud of by the public

Mission

To collect tax revenue efficiently and effectively in order to support self financing for government budget in accordance with tax laws and regulations

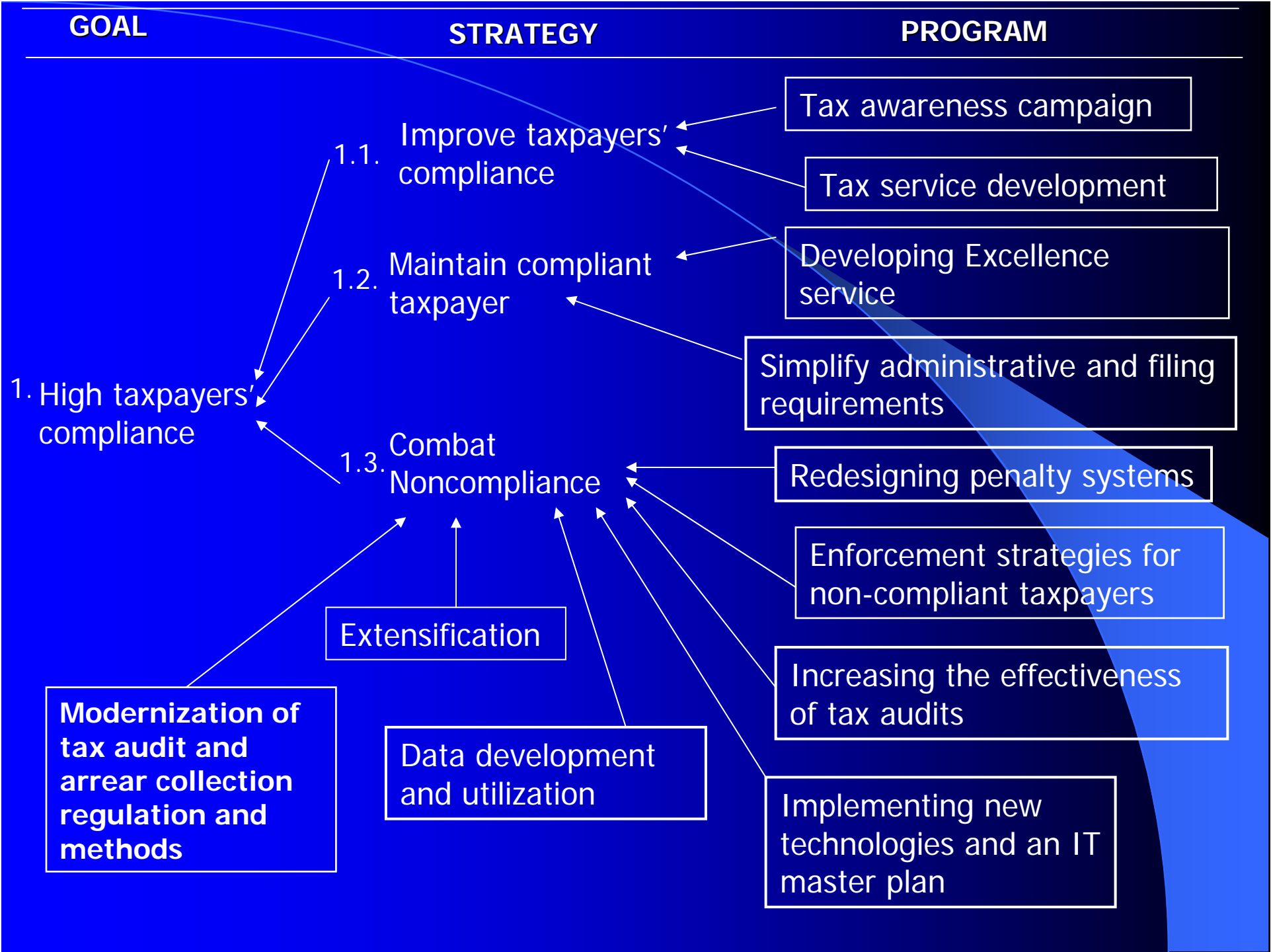
BACKGROUND

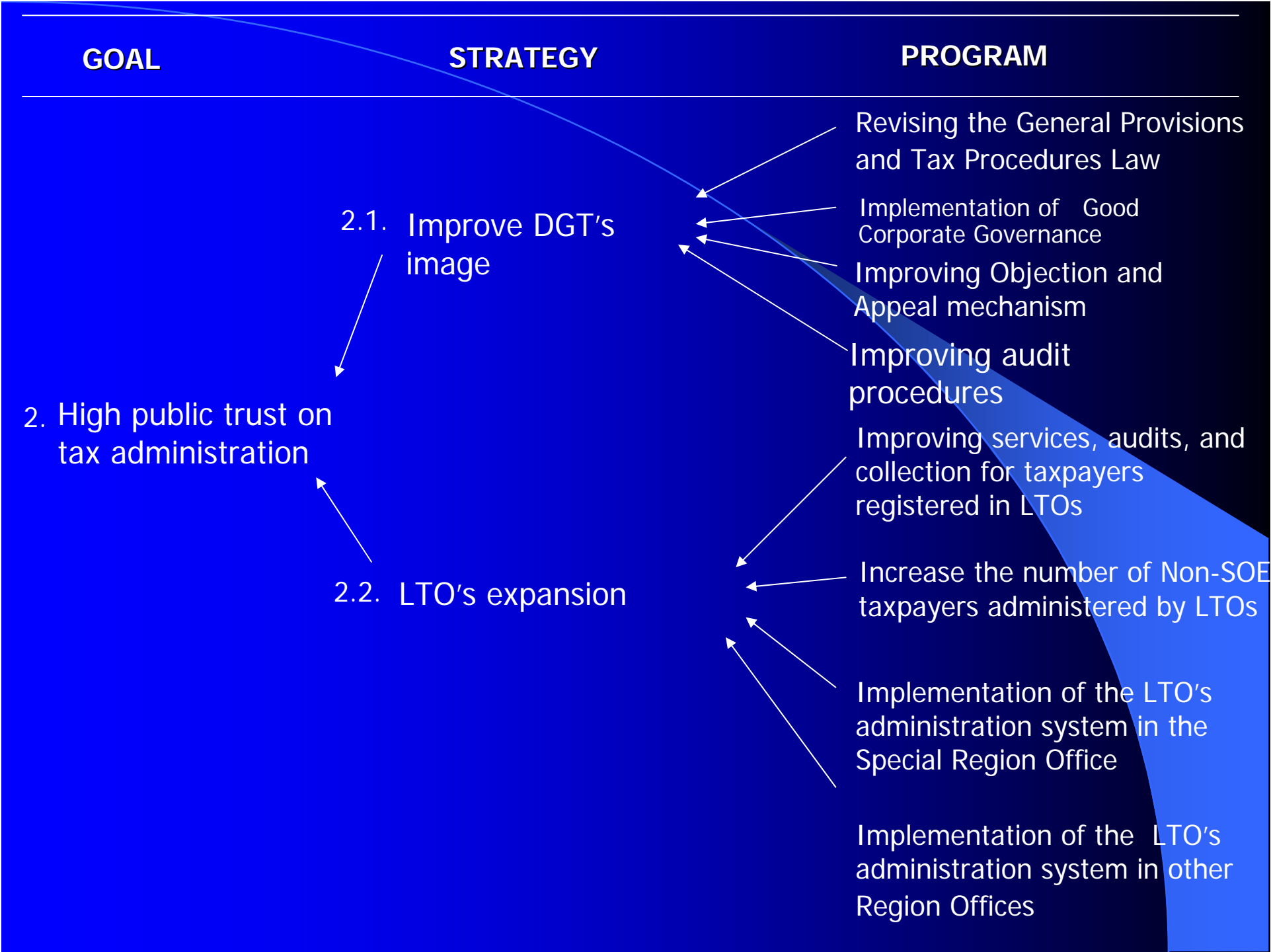
To reach Directorate General of Taxes' goals in the next three years, it is important to determine medium-term strategies that will be a guidance for tax reforms.

The goals are to achieve:

- High voluntary compliance.
- High public trust to the tax administration.
- High tax officer's productivity.

The tax reforms is the continuation of current tax reforms that have been started and it is designed to be **systematic and sustainable**





GOAL

STRATEGY

PROGRAM

2. High public trust on tax administration

2.1. Improve DGT's image

2.2. LTO's expansion

Revising the General Provisions and Tax Procedures Law

Implementation of Good Corporate Governance

Improving Objection and Appeal mechanism

Improving audit procedures

Improving services, audits, and collection for taxpayers registered in LTOs

Increase the number of Non-SOE taxpayers administered by LTOs

Implementation of the LTO's administration system in the Special Region Office

Implementation of the LTO's administration system in other Region Offices

GOAL

STRATEGY

PROGRAM

3. High Tax Officers' Productivity

← 3.1. Improve tax officer's productivity

Restructuring DGT into units based on functions and type of taxpayer

Strengthen headquarters capacity for developing programs and monitoring field offices

Human resources development

Improve the quality of work facilities and infrastructures

Prepare Operational Work plan

PROGRAM 1: TAX AWARENESS CAMPAIGN

1. To continue Tax Awareness Campaign to: Political Parties, Universities, Business Associations, NGOs, Taxpayers, Local Governments, Religious Leaders and Professional Groups .
2. To increase the intensity of tax socialization through mass media and other media (i.e. tax café, outdoor stage, and other tax discussions).
3. To set up tax billboards at strategic locations
4. To publicize tax reform programs (including good corporate governance framework).
5. To include a taxation subject in official trainings provided by government agencies.
6. To include a taxation subject in elementary and high school curriculum through cartoon show for children.
7. To propose the procedure that requires tax compliance examination for specified public officials
8. To utilize the Internet for tax socialization

**PROGRAM 2:
TAX SERVICE DEVELOPMENT**

1. To establish a Call Center at Regional Tax Offices to answer public's questions, handled by well-trained tax officers.
2. To provide designated well-trained officers at integrated walk up counter (TPT) to answer tax problems and give tax counseling.
3. To provide computer-based tax information (i.e. touch screen) at every district tax offices.
4. To improve and update information at DGT's website.

**PROGRAM 1:
DEVELOPING EXCELLENCE SERVICES TO TAXPAYERS**

1. To appoint Account Representatives (AR) at each Tax Office to particularly serve 100 largest taxpayers (including defining the task and authority of the ARs)
2. To improve time and quality standard of tax services (refund claim and objection process; responding taxpayers' questions)
3. To establish trainings about method and technique of excellence service.

PROGRAM 2: SIMPLIFYING ADMINISTRATIVE AND FILING REQUIREMENTS

1. To improve and nationalize the *e*-filing program.
2. To improve the on-line payment system.
3. To consider the implementation of **VAT and Income Tax** Period for reporting that is longer than one month.
4. To review the criteria for withholding agents (options: reduce the number of withholding agents, reduce the amount of transaction subject to **withholding**)
5. To ease the requirements for complaint taxpayers, however DGT reserves its rights to conduct post audit.
6. To establish standard operating procedure in responding taxpayers' questions.
7. To simplify the tax return forms.
8. To provide tax forms/documents that support computerization system (provide easily-scanned documents)

PROGRAM 1: REDESIGNING PENALTY SYSTEMS

1. To clearly distinguish the definition of interest and penalty.
2. To revise the penalty of late filing to encourage taxpayers to file tax returns on time (including penalty of late filing for **zero payment**)
3. To revise the interest charge for late payment to be suitable with market rate (establish a rate that is above market rate)
4. To revise the penalty of underreporting and properly distinguish between degrees of culpability.
5. To revise the **penalty** for third parties who do not give information to support the tax authority.
6. To revise the penalty for those who do not register themselves to tax offices.
7. To revise the penalty for those who do not have a bookkeeping.
8. To revise the penalty for those unwilling to show their bookkeeping for tax audit purpose.
9. To design the computer application to impose penalties.

PROGRAM 2 : ENFORCEMENT STRATEGIES FOR NONCOMPLIANT TAXPAYERS

1. To develop taxpayers' non-compliance patterns in order to formulate appropriate audit programs that are suitable to taxpayers' business group.
2. To define criteria that classifies taxpayers into high risk, medium risk, and low risk group.
3. To develop the criteria of tax audit selection in accordance with taxpayers non-compliance patterns by focusing on high risk group taxpayers.
4. To develop tax audit modules by business group as a minimum standard of tax audit performance.
5. To utilize Data Bank intensively and to give warning to non-compliance taxpayers based on data available.
6. To establish standard operating procedures, rights and obligations of tax consultant (including penalties for violations).

PROGRAM 3 : INCREASING EFFECTIVENESS of TAX AUDIT

1. To reduce allocation of tax auditors for low risk audit by simplifying the audit program for low-risk taxpayers.
2. To redefine the term of audit for refund claim.
3. To speed up the process of refund claim for low-risk taxpayers.
4. To increase the coverage of audit for taxpayers who are potentially will increase tax revenue.
5. To increase the **quality of audits in order** to improve the collection from the assessments.
6. To establish technical trainings to improve tax auditors' competence.
7. To develop tax auditors' professionalism in certain business sector in order to improve the quality and productivity of tax audit (for example oil and gas industry).
8. To improve the peer review procedure.

PROGRAM 4 : MODERNIZATION OF TAX AUDIT AND ARREAR COLLECTION REGULATIONS AND METHODS

1. To propose amendments upon procedures of obtaining data from banks **by which** Director General of Taxes himself or herself is sufficient to request the data.
2. To simplify audit program/procedure for low risk taxpayers (by using audit software)
3. To develop audit administration by using computer automation.
4. To develop audit method and conduct trainings regarding tax audit for oil and gas industry.
5. To **clarify** the requirements of confirmation of tax invoice , withholding receipt, and tax payment receipt that the confirmation will not delay the tax audit conclusion. Nonetheless, if the result of confirmation does not match with the tax return it will be treated as a new evidence (novum).
6. To **expand** the object of tax arrear writing-off.
7. To **clarify** the use of official assessment penalty and sanction by tax officers in case taxpayers do not fulfil their obligations during the tax assessment process.
8. To clarify the provision regarding taxpayers **detention** in order to gain support from related authority.
9. To propose a additional provision regarding a **third party assessment**.
10. To revise regulations necessary **to expedite the payment of collection** fee to tax officials.

PROGRAM 5 : EXTENSIFICATION

1. To reregister taxpayers and to centralize Taxpayers Identification Number (TIN) assignments in order to improve taxpayers' master file.
2. To conduct canvassing program continuously and systematically supported by information from the data bank.
3. To require withholding agents to put identity and TIN in each withholding receipt issued. Penalties will be imposed to those who don't comply.
4. To propose a regulation that will make an obligation to taxpayers to put TIN in every document.
5. To impose prepaid income tax upon certain transactions

PROGRAM 6 : IMPLEMENTING NEW TECHNOLOGIES AND AN INFORMATION TECHNOLOGY MASTER PLAN

1. To design medium-term IT development for: on line payment systems, e-returns, e-registration, selection criteria for audit, workflow management systems, **taxpayers' accounting**, electronic intelligent revenue service, and exchange and crosschecking of information between DGT and other government institutions.
2. To develop computer application needed for the medium-term IT development to support tax administration modernization.
3. To provide hardware to implement the medium-term IT development.
4. To develop a system to secure DGT's data and also to build a Disaster Recovery Center
5. To develop IT training programs
6. To propose a budget for the entire set of projects

PROGRAM 7: DATA DEVELOPMENT AND UTILIZATION

1. To improve exchange of information cooperation between DGT and other government institutions such as Ministry of Trade and Industry, DG.Custom, DG.Budget, BPN, local governments, Ministry of Manpower, Police Department, NGOs, BULOG, Pertamina, Ministry of Justice, Stock exchange authority, State-owned enterprises, etc.
2. To establish a data bank and data warehouse
3. To develop a secure, reliable and user-friendly information and data processing system.
4. **To activate the information retrieval from other government institutions systematically.**
5. **To collect** data from large taxpayers to improve DGT's data bank.

PROGRAM 1 : REVISING GENERAL PROVISIONS AND TAX PROCEDURES LAW

1. To reduce taxpayers' compliance costs, i.e. simplifying tax procedures and mechanisms
2. To promote fairness
3. To **state firmly** the taxpayers bill of rights
4. To improve the objection process and tax tribunal
5. To improve protection upon tax laws executions, i.e. protection upon tax officers during collection, audit, and investigation processes.
6. To review mandatory audit on overpayment returns (considering amendment of General Provisions and Tax Procedures Law and Treasury Law)
7. To clarify the obligation of certain taxpayers to provide audited financial statement.

**PROGRAM 2:
IMPLEMENTATION GOOD CORPORATE
GOVERNANCE**

1. To implement the Code of Conduct to all DGT staffs
2. To conduct internal consolidation through training, reward and punishment, proper staff assignment, and moral and attitude improvement.
3. To improve the intensity of communication between DGT and taxpayers in order to increase transparency.
4. To improve the internal quality controls of tax services and tax audit.
5. To increase the effectiveness of Inspectorate General supervision.
6. To design an effective control procedure by the head office.

**PROGRAM 3:
IMPROVING OBJECTION AND APPEAL
MECHANISMS**

1. To review the General Provisions and Tax Procedures Law article 16, 25, 26, and 36 regarding tax collection, audit in connection with objection, obligation on objection and appeal.
2. **To speed up the objection processes** (including work procedure and decision making mechanism).
3. To restructure objection settlement unit.

**PROGRAM 4:
IMPROVING AUDIT PROCEDURES**

1. To design audit procedures based on taxpayers' business sector and investigation procedures
2. To improve control procedures of audit and investigation
3. To improve the organization of audit office.

PROGRAM 1: IMPROVING SERVICES, AUDITS, AND COLLECTION UPON TAXPAYERS REGISTERED IN LTOs

1. To establish standards of performance for tax service.
2. To improve services to taxpayers by speeding up refund process, *e*-Returns and *e*-Filing training, relaxing the criteria of gold taxpayer, operating complaint center, speeding up the objection and appeal process, and increase the quality of Account Representatives' services.
3. To improve audit effectiveness by focusing audit on potential taxpayers.
4. To improve staffs' skills in taxpayers service, audit, monitoring, and collection through training programs.
5. To complete SAPT implementation.
6. To improve online payment systems.
7. To improve *e*-reporting systems.
8. To develop effective communication systems, such as routine meetings, surveys, and advisory visits, to obtain feedback i.e.
9. To gather data related to taxpayers to increase tax revenue.
10. To implement exchange of information agreement between DGT and other tax authorities to ensure taxpayers' reported transactions.

**PROGRAM 2:
INCREASING THE NUMBER OF NON-SOE TAXPAYERS
MONITORED BY LTOs**

1. To prepare the list of potential large taxpayers to be administered by the LTOs.
2. To add up to 300 large taxpayers to be administered by the LTOs.
3. To prepare additional 300 large taxpayers to be administered by the LTOs.
4. To increase the number of tax officers (especially AR and auditors) in the LTOs.
5. To improve working facilities that are needed for operating expansion of the LTOs.
6. To provide sufficient fund for maintenance, improvement, and implementation of the LTOs' operation.

**PROGRAM 3:
IMPLEMENTATION OF THE LTO'S ADMINISTRATION SYSTEM
IN THE REGION VII**

1. To reorganize the Structure of Special Region Office so that similar to that of Large Taxpayers Region Office
2. To propose the budget needed for DGT's reorganization and implementation of SAPT
3. To conduct trainings on operation of new system for tax officers in the Special Region Office.
4. To implement SAPT

**PROGRAM 4:
IMPLEMENTATION OF THE LTO'S ADMINISTRATION SYSTEM
IN OTHER REGIONAL TAX OFFICES**

1. To reorganize the Structure of other Regional Tax Offices so that similar to that of Large Taxpayers Regional Tax Office
2. To propose the budget needed for DGT's reorganization and implementation of SAPT
3. To conduct training on operation of new system for tax officers in the Regional Tax Offices.
4. To implement SAPT

**PROGRAM 1:
RESTRUCTURING DGT INTO UNITS BASED ON FUNCTION
AND TYPE OF TAXPAYER**

1. To map distribution of taxpayer through out Indonesia.
2. To analyze the availability of human resources based on expertise, educational background, job history, and age to measure capability of DGT staffs and to determine appropriate organizational structure.
3. To conduct comparative study in other countries that have similar tax system and demography.
4. To design organizational structure based on function, taking into account taxpayer and human resources condition, by establishing Directorate of Research and Development and Directorate of Internal Audit in the DGT, also Directorate that has a function as expert staff of the Director General.
5. To propose reorganization of the DGT.
6. To implement reorganization based on function.
7. To review implementation of reorganization.

The Evolution of Tax Administration

Tax Focus

Function Focus

Taxpayer Focus

Functions

Sales Tax	Corporate Tax	Personal Income Tax



Registration
Accounting
Taxpayer Education
Collection
Audit
Appeals



Large Businesses	Medium/Small Businesses	Individuals

**PROGRAM 2:
STRENGTHEN HEADQUARTERS CAPACITY FOR
DEVELOPING PROGRAMS AND MONITORING FIELD
OFFICES**

1. To review present monitoring and reporting system in the vertical organizational unit of the DGT.
2. To design monitoring and reporting systems by utilizing information technology and to develop communication network among DGT's organizational units that are able to increase the effectiveness of monitoring.
3. To develop planned monitoring and reporting system including required information technology investment.
4. To implement monitoring and reporting system.
5. To review the implementation of monitoring and reporting system.

PROGRAM 3: HUMAN RESOURCES MANAGEMENT

1. To improve Human Resources Information System (SIPEG)
2. To plan human resources needs and to conduct **regeneration** of DGT staff.
3. To develop and to propose recruitment system that is flexible in accordance with the need of organization.
4. To develop and to propose remuneration system restructuring that is flexible and competitive.
5. To develop and to propose remuneration system based on staff's performance and expertise.
6. To develop and to propose senior manager appointment system based on technical capability and leadership.
7. To develop comprehensive training program in accordance with job requirement in the organization by putting priority on information technology training as one of the basic/required trainings.

**PROGRAM 4:
IMPROVING THE QUALITY OF WORK FACILITIES AND
INFRASTRUCTURES**

1. To analyze the condition of DGT's offices facilities.
2. To conduct comparative study to know the quality requirements of tax office in developed countries.
3. **To plan the budget for facilities improvement to support modernization of tax administration throughout Indonesia.**
4. **To propose the budget for facilities improvement to support modernization of tax administration throughout Indonesia.**
5. To implement improvement on the quality of working facilities.
6. To propose the budget for maintenance and improvement of continuous modernization of tax administration

PROGRAM 5 : PREPARE OPERATIONAL WORK PLAN

1. To prepare focus of DGT's medium term annual activities as a DGT's vertical unit performance evaluation standard.
2. To evaluate and to synchronize DGT's Operational Work Plan with annual activities focus plan.
3. To monitor the implementation of Operational Work Plan in each office unit.

In Progress Today

- Established Modern System Implementation
- Small Taxpayers Office to serve individual taxpayers in process
- New system IT implementation

Modern System Implementation

- On July 2002, at the Large Taxpayers Office 1 (LTO 1), the LTO-2, and the Large Taxpayers Regional Office (LTRO);
- On December 2003, at KPP BUMN and Jakarta Khusus Region Office.

By October 2004, all tax offices under this region will be modernized (PMA, PMB, Badora);

- On August 2004, Medium Taxpayers Office and Jakarta I Region Office.
- On April 2005, Small Taxpayers Office established in Jakarta I Region Office.
- In 2006, Small Tax payers office in Jakarta III Region Office and MTO in Batam, Bekasi, Tangerang

Small Taxpayers Office

- **Merger of Local Tax Office (KPP) and Property Tax Office (KPPBB);**
- **The Whole System of LTO will be adjusted to serve and administer small taxpayers and property taxpayers.**

New System Implementation

- **In 2004/2005, All Local Tax Offices of Jakarta I Tax Region Office are ready for the new system implementation**

TAX REFORM

- Tax Reform in Indonesia was started in 1983.
- The second tax reform was issued in 1994.
- The third tax reform was issued in 2000.
- The fourth tax reform will be issued in last 2005.

TAX REFORM 1983

(General Provision and Tax Procedures)

- The Due date for filing Tax Returns was divided into two types:
 - Periodic Tax Return is due on 20 (twenty) days after the end of Taxable Period. Late file return will be charged a fine as much as Rp.10.000 (ten thousand rupiahs);
 - Annual Tax Return is due on 3 (three) months after the end of the Taxable Year, Late file return will be charged a fine as much as Rp.10.000 (ten thousand rupiahs);
- Refund upon request will be given after period of 12 month by Director General of Taxes.
- Tax Liability and tax Collection will be expire in a 5 (five) years-period..

TAX REFORM 1983 (Income Tax)

The tax rate applicable to each taxable incomes bracket is as follow:

- 10 million rupiahs – or less = 15%
- Over 10 million rupiahs – 50 million rupiahs = 25%
- Over 50 million rupiahs = 35%

TAX REFORM 1983

(Value Added Tax on Goods and Services
and Sales Tax on Luxury Goods)

- The Value Added Tax rate is 10%
- The Value Added Tax rate on the export of taxable goods is 0% (zero percent)
- The Sales Tax rate on Luxurious goods are 10% and 20%
- The Sales Tax rate on Luxurious goods for export purpose only is 0% (zero percent).

TAX REFORM 1994

(General Provision and Tax Procedures)

Due date for filing Tax Return, such as:

- Periodic Tax Return is due on 20 (twenty) days after the end of Taxable Period. Late filing will be charged with a fine of Rp.25.000,00 (twenty five thousand rupiah):
- Annual Tax Return is due on 3 (three) months after the end of the taxable year. Late filing will be charged with a fine of Rp.50.000,00 (fifty thousand rupiah);
- Refund upon request will be given after period of 12 month by Director General of Taxes.
- Tax Liability and tax Collection will be expire in a 10 (ten) years-period.

TAX REFORM 1994 (Income Tax)

The tax rate applicable to each taxable incomes bracket is as follow:

- 25 million rupiahs – or less = 10%
- Over 25 million rupiahs – 50 million rupiahs = 15%
- Over 50 million rupiahs = 30%

TAX REFORM 1994

(Value Added Tax on Goods and Services
and Sales Tax on Luxury Goods)

- The Value Added Tax rate is 10%
- The Value Added Tax rate on the export of taxable goods is 0% (zero percent).
- The Sales Tax rate on Luxurious goods is on the range of 10% to maximum 50%
- The Sales Tax rate on Luxurious goods for export purpose only is 0% (zero percent).

TAX REFORM 2000

(General Provision and Tax Procedures)

- Due date for filing Tax Return, such as:
- Periodic Tax Return is due on 20 (twenty) days after the end of Taxable Period. Late filing will be charged with a fine of Rp.50.000,00 (fifty thousand rupiahs):
- Annual Tax Return is due on 3 (three) months after the end of the taxable year. Late filing will be charged with a fine of Rp.100.000,00 (one hundred thousand rupiahs);
- Refund upon request will be given after period of 12 month by Director General of Taxes.

TAX REFORM 2000

(General Provision and Tax Procedures)

- Tax Liability and tax Collection will be expire in a 10 (ten) years-period.
- If Tax auditor concludes a tax assessment not in accordance with the tax regulation, and furthermore, the assessment is resulting on a loss for the state, then the official denoted is liable to a penalty provided by the Law.

TAX REFORM 2000

(Income Tax)

The tax rate applicable to each taxable incomes bracket is as follow:

Individual Taxpayer:

- 25 million rupiahs – or less = 5%
- Over 25 million rupiahs – 50 million rupiahs = 10%
- Over 50 million rupiahs – 100 million rupiahs = 15%
- Over 100 million rupiahs – 200 million rupiahs = 25%
- Over 200 million rupiahs = 35%

Tax rate applicable to entities as resident Taxpayers and permananet establishment:

- 50 million rupiahs – 100 million rupiahs = 10%
- Over 50 million rupiahs – 100 million rupiahs = 15%
- Over 100 million rupiahs = 30%

TAX REFORM 2000

(Value Added Tax on Goods and Services
and Sales Tax on Luxury Goods)

- The Value Added Tax rate is 10%
- The Value Added Tax rate on the export of taxable goods is 0% (zero percent).
- The Sales Tax rate on Luxurious goods is 10% lowest and highest rate of 75%.
- The Sales Tax rate on Luxurious goods for the export purpose only is 0% (zero percent).

TAX REFORM 2005

(General Provision and Tax Procedures)

- Due date for filing Tax Return, such as:
 - Periodic Tax Return is due on 20 (twenty) days after the end of Taxable Period. Late filing will be charged with a fine of Rp.50.000,00 (fifty thousand rupiahs) for individual taxpayers and Rp.500.000,00 (five hundred thousand rupiahs) for late filing VAT.
 - Annual Tax Return is due on 3 (three) months after the end of the taxable year. Late filing will be charged with a fine of Rp.250.000,00 (two hundred and fifty thousand rupiahs) for individual taxpayer, and Rp.1 million for corporate taxpayers
 - Refund upon request will be given after period of 12 month by Director General of Taxes.
 - Tax Liability and tax Collection will be expire in a 5 (five) years-period.

PROPOSED TAX REFORM 2005

(General Provision and Tax Procedures)

- If Tax auditor concludes a tax assessment not in accordance with the tax regulation, and furthermore, the assessment is resulting on a loss for the state, then the official denoted is liable to a penalty provided by the Law.
- Proposal to give VAT Refund for Foreign Tourist.
- Registered Corporate in Stock Market which its financial report has been audited by Certified Public Accountant, will not be examined by Tax Auditor, unless a false data or information related to its financial reports is found.
- Applying code of conduct to all tax officers.
- Other institution such as Government, Private, associations and others are obliged to report any data and information related to taxation to Directorate General of Taxes.

PROPOSED TAX REFORM 2005

(Income Tax)

The tax rate applicable to each taxable incomes bracket is as follow:

Individual Taxpayer:

- 50 million rupiahs – or less = 5%
- Over 50 million rupiahs – 100 million rupiahs = 15%
- Over 100 million rupiahs – 200 million rupiahs = 25%
- Over 200 million rupiahs = 35%

Next 5 (five) years, the highest rate will be 30%

Tax rate applicable to entities as resident Taxpayers and permananet establishment:

- Single rate 30%, but in the next 5 (five) years it will be decrease to 25% gradually.

PROPOSED TAX REFORM 2005

(Value Added Tax on Goods and Services
and Sales Tax on Luxury Goods)

- Value Added tax rate is 10%
- The Value Added Tax rate on the export of taxable goods is 0% (zero percent).
- The Sales Tax rate on Luxurious goods is 10% at lowest and 75% at highest.
- The Sales Tax rate on Luxurious goods for the export purpose only is 0% (zero percent).
- The Value Added Tax rate on the export of taxable services is 0% (zero percent).

THE OTHER TAX REFORM

- Reformation of Land and Building Tax law, in 1985 and 1994.
- Reformation of Regional Tax and Regional Retribution law, in 1997, 2000 and 2004.
- Reformation of Acquisition duty of right on land and building law, in 1997 and 2000.
- Reformation of Tax Collection with Coerce Warrants law, in 1997 and 2000.



THANK YOU