

Summary of Proposed Research Program for Doctor of Philosophy

**Degree of Doctor of Philosophy
Application for Candidacy**

Title

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

Abstract

Indonesia has undergone two major tax reforms. The first reform in the 1980s introduced the self-assessment system and significantly simplified the Indonesian tax system. Although some disagreed with its top-down approach and the dominant role of foreign advisors, this reform is considered a success in increasing non-oil tax revenue, although it arguably failed to address the low tax administration performance.

The second major reform in the 2000s, which focused on tax administration, was part of the IMF's restructuring programme. It started by establishing a large taxpayer office as a pilot project using a functional-based organisation model and a taxpayer-oriented approach. The pilot project was expanded to include medium and small taxpayers in Jakarta. Despite the poor economic conditions, these pilot offices showed strong revenue growth, mostly attributed to voluntary payments. This model was later implemented nationally under the "tax administration modernisation" initiative, indicating a move towards a taxpayer-service focus. The post-reform revenue, however, does not show a similar pattern as that found in the pilot offices and, despite the GDP growth, tax revenue to GDP ratio shows a decline. Similar decreases can also be found in the Indonesian tax effort statistics calculated by the IMF.

This research analyses the difference between tax administration applied in the pilot offices and tax administration currently applied in Indonesia to identify whether further improvements in the current tax administration can significantly increase tax revenue. It will also explore additional changes that may be required to optimise revenue collection. For this purpose, a mixed-method approach will be used. This includes interviews with sources of various backgrounds such as tax officials, policy makers, academics, and tax consultants. A legal analysis on the current tax administration legislation will also be conducted. The results of these interviews will be validated using document analysis on reports and other documents published by relevant institutions. It is expected that the knowledge resulting from this research will be useful for the Indonesian tax administration in optimising revenue collection.

Objectives

This research seeks to answer the following question:

Can improvements be made to the effectiveness of the current Indonesian tax administration to substantially optimise revenue collection taking into consideration the lessons learnt from the tax administration modernisation pilot project and the implementation of the tax administration modernisation initiative?

The following questions will assist in answering the aforementioned question:

- 1) What aspects of tax administration were essential in the success of the pilot offices and why? What were their strengths and weaknesses?
- 2) What are the differences between the tax administration applied at the pilot offices and the tax administration currently practiced and why do these differences occur? In light of this, how can the current tax administration be improved? What is the likely impact of these improvements on increasing tax collection?
- 3) In addition to improving administration, what other changes are important in increasing tax collections?

Background

Indonesia started preparing the first major tax reform in 1981. In that year, Indonesia's GDP was USD 92.47 billion (2013 GDP was USD 868.35 billion) with industry holding the largest share (41.21%) followed by

services (35.43%) and agriculture (23.36%).¹ At that time, Indonesia used a tax system inherited from the Dutch administration. Typical for a developing country, the tax system was inefficient as a result of a limited number of taxpayers, lack of modern administration, and – in Indonesia’s case – a high level of avoidance.² The system was outdated, complicated, and its collection procedure was poor.³ Hence, compliance was low, as indicated by a low realised to potential revenue ratio, low tax-return lodgement rate, and an increasing amount of uncollected taxes.⁴ As a result, proceeds outside oil taxation were limited.⁵ Oil tax revenue, on the contrary, was high due to the oil boom and effective enforcement on oil companies.⁶ Nevertheless, generally the tax system was considered inefficient, unproductive, ineffective in income redistribution, and vulnerable to manipulation.⁷

A First Major Reform

The first major reform, which began with the introduction of income tax law – in force as of 1 January 1984 – repealed income-based tax legislation inherited from the Dutch era. The objective of this reform was to increase non-oil revenue, create more effective income distribution, increase efficiency, and reduce transaction costs by limiting the opportunity for corruption.⁸ Its main feature was simplification.⁹ Various tax incentives were removed, the tax base was broadened and tax rates were reduced to a maximum 35% from an initially of 50% for individuals and 45% for firms. A single tax identification number was introduced. Additionally, the low-income threshold was increased, causing most Indonesians to not be subject to income taxation. Also, companies were required to withhold taxes on salary and wages and taxes on investment income. Taxpayers earning only employment income were not required to lodge tax returns.

In addition, Value Added Tax (VAT) legislation was enacted replacing sales tax and turnover tax. The VAT used the credit method and generally followed the destination principle applied in Europe. For simplicity reasons, a single rate of 10% was used with no exemptions. Further simplification was obtained by exempting small businesses from VAT. Lastly, land and building tax and stamp duty laws were introduced later. These taxes are the only taxes administered by the Directorate General of Taxes (DGT) until today and have been the major contributors of national revenue.

The DGT’s organisation in this era generally followed the type of tax approach. Income tax and VAT were administered by Kantor Pelayanan Pajak (KPP/District Tax Office) while Land and Building Tax was managed by Kantor Pelayanan Pajak Bumi dan Bangunan (KP PBB/Land and Building Tax Office). Additionally, there was Kantor Pemeriksaan dan Penyidikan Pajak (Karikpa/Tax Auditor Office) that dealt with tax auditing.

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

Despite its failure in improving tax administration,¹² this reform was viewed as a success in increasing non-oil tax revenue,¹³ which mainly contributed by growth in non-oil tax base as well as an extensive use of

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

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

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

⁴ Gitte Heij, *Tax Administration and Compliance in Indonesia*, Policy paper / Asia Research Centre on Social, Political, and Economic Change, Murdoch University, (Asia Research Centre on Social, Political, and Economic Change, Murdoch University, 1993).

⁵ Gillis, above n 3.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

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

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

¹¹ Ibid.

¹² Malcolm Gillis, 'Comprehensive Tax Reform: The Indonesian Experience, 1981-1988' in Malcolm Gillis (ed), *Tax Reform in Developing Countries* (Duke University Press, 1989) 79.

withholding mechanism.¹⁴ Tax revenue to GDP ratio increased from 5% in 1980-1981 to 9.9% in 1995-1996.¹⁵ The number of taxpayers also rose sharply between 1983 and 1986. Strong growth too was evidenced in businesses registered for VAT in 1985-1990.¹⁶ By 31 December 2013, total taxpayers reached 18.8 million.¹⁷ The reform was also seen to be a success in introducing VAT without affecting economic stability.¹⁸

B Second Major Reform

Following the economic crises in the 1990s, the Indonesian government overhauled its tax administration as part of the IMF's restructuring programme.¹⁹ Indonesia was required to establish a large taxpayer office (LTO) in 2002 to strengthen tax administration and improve revenue,²⁰ featuring a function-based organisation, service-oriented system, accelerated-refund process, and an effective enforcement.²¹ The move towards LTO is not surprising as the IMF has been playing a major role in the worldwide large taxpayer unit (LTU) adoption.²² The decision to use a function-based organisation also follows the IMF's view that an LTU be mandated to administer all major national taxes, which was a departure from what was practised in Indonesia in that era.²³ This organisational type is also believed to be able to improve taxpayer services.²⁴

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

In Indonesia, the pilot project for tax administration modernisation takes an incremental approach. It was initiated by – as has been mentioned – the establishment of the LTO in 2002³⁰ and, subsequently, its design was tested in Central Jakarta for medium taxpayers (Medium Taxpayer Office/MTO) and small taxpayers (Small Taxpayer Office/STO) in 2004.³¹ The results of these pilot offices were promising. They obtained a high taxpayer satisfaction score in the AC Nielsen's eQ survey.³² Each pilot office – LTO, MTO, and STO – respectively obtained a score of 81, 78, and 74, which was higher compared to the overall score in Australia (66), Hong Kong (75), and Singapore (76). This survey revealed that the strengths of these offices were in their integrity, services, simplicity-efficiency, and informational resources. They also demonstrated stronger revenue performance. The LTO for instance, showed an increase in revenue collection from 1.54% of GDP in

¹³ Fuad Bawazier, 'Reformasi Pajak di Indonesia' (2011) 8(1) *Jurnal Legislasi Indonesia* 1.

¹⁴ Mohamad Ikhsan, Ledi Trialdi and Syarif Syahrial, 'Indonesia's New Tax Reform: Potential and Direction' (2005) 16(6) *Journal of Asian Economics* 1029.

¹⁵ Amir, Asafu-Adjaye and Ducpham, above n 2.

¹⁶ Wing Thye Woo, Bruce Glassburner and Anwar Nasution, *Macroeconomic Policies, Crises, and Long-Term Growth in Indonesia, 1965-90*, World Bank Comparative Macroeconomic Studies (World Bank, 1994).

¹⁷ Letter No S-70/PJ.08/2014.

¹⁸ Gillis, above n 12.

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

²⁰ *Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding* <<https://www.imf.org/external/np/loi/2001/idn/02/index.htm>>.

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

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

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

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

²⁵ Baer, Benon and R, above n 23.

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

²⁷ Baer, Benon and R, above n 23.

²⁸ Vehorn, above n 26.

²⁹ McCarten, above n 24.

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

³¹ Ministry of Finance Regulation No 254/KMK.01/2004.

³² Brondolo et al, above n 21.

2002 to 1.80% of GDP in 2003, while revenue of non-modernised offices for the same period stayed at 7.2% of GDP. Most revenue (1.52% of GDP in 2002 and 1.76% of GDP in 2003 respectively) was contributed to by voluntary payments. LTO's revenue continued to grow to 2.34% of GDP in 2005. By contrast, the non-modernised office showed a decrease from 7.2% of GDP in 2003 to 4.1% of GDP in 2005. It was thus concluded that the increase of compliance that led to the revenue rise at these offices was mostly associated with the administration reform.³³

The system applied in the pilot offices was adopted nationally under the tax administration modernisation programme starting in 2007. The focus was on improving voluntary compliance, taxpayer trust, and tax officials' productivity through improved service quality and the taxpayer monitoring system.³⁴ In this context, several changes were introduced, including:

1 Organisational changes

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

- a. The unification of three types of tax offices – KPP, KP PBB, and Karikpa – into a single office following the model at the pilot offices. It was expected that taxpayer service increased as taxpayers would only need to visit one – rather than three – offices. This reorganisation was completed nationally in 2008.
- b. The introduction of an account representative role. The main duties of an account representative are providing consultation to taxpayers, informing the latest tax rules to taxpayers, and conducting taxpayer compliance monitoring. It is designed so that the tax office 'knows their taxpayers'.

2 Business process changes

Business process changes are aimed at implementing an automation system – particularly for clerical jobs – thereby increasing efficiency and effectiveness. In this process, standard operating procedures started to be written in 2007. Another change was the introduction of an electronic system. This included the e-filing and e-registration system for taxpayers and Sistem Informasi DJP/DGT Information System for tax administration purposes. Also, a limited electronic tax payment was later introduced in 2013.

3 Human resource management changes

In the human resources context, the administration reform introduced employee competence assessment, a customer-driven approach, and continuous improvement. A code of conduct was also made compulsory.

C Organisational Performance

The second major reform has brought a number of recognitions. These include:³⁵

- a. Being awarded as the most innovative public service provider by MarkPlus Insight – an Indonesian marketing consulting firm – in 2009.
- b. Achieving a high Anti-Corruption Initiatives Assessment score of 8.18 from the Indonesian Corruption Eradication Commission in 2011.
- c. Winning various medals in the 2012 international contact centre competition.
- d. Obtaining bronze champion in the most trusted public institution category from MarkPlus Insight in 2013.³⁶

National revenue, however, does not show a similar positive trend as found in the pilot offices. Despite the continuous GDP increase, the tax to GDP ratio fell from 12% in 2006 to 10% in 2013 (Figure 1).

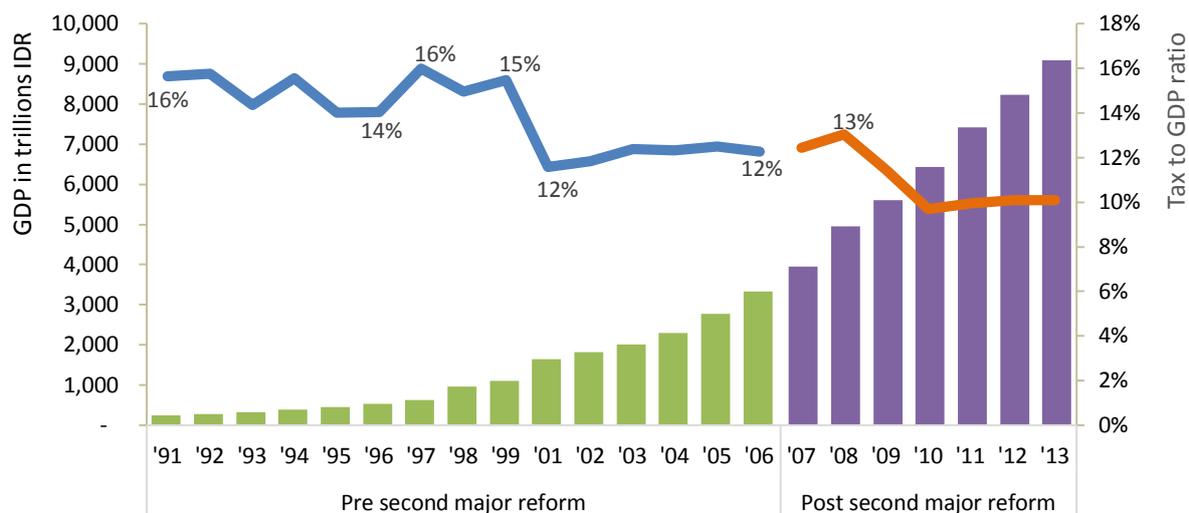
Figure 1 Tax revenue to DGP ratio continues to decrease

³³ Ibid.

³⁴ Liberti Pandiangan and Rayendra L Toruan, *Modernisasi & Reformasi Pelayanan Perpajakan Berdasarkan UU Terbaru* (Elex Media Komputindo, 2008).

³⁵ Directorate General of Taxes, 'Harmonization in Building the Nation (2012 Annual Report)' (Directorate General of Taxes, 2012) <<http://www.pajak.go.id/sites/default/files/AR%20DJP%202012-Eng%20%28Lowres%29.pdf>>.

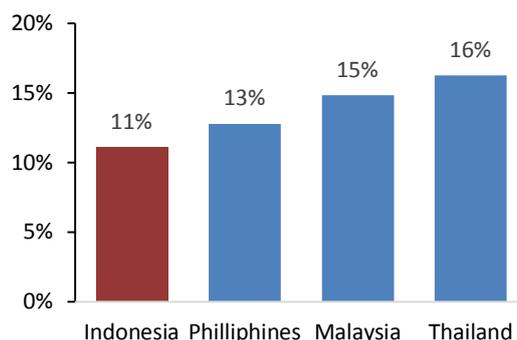
³⁶ *Direktorat Jendral Pajak Terima Penghargaan Sebagai Instansi Publik Paling Dipercaya* <<http://news.detik.com/read/2013/09/25/174300/2369423/727/direktorat-jendral-pajak-terima-penghargaan-sebagai-instansi-publik-paling-dipercaya?991101mainnews>>.



Source: World Bank's World Development Indicators database

A higher ratio can be seen in 2008 possibly due to the revenue increase as a result of tax amnesty in that year. Overall, in 2007-2013, the average of tax revenue to GDP ratio dropped to 11% from 13% average in 1999-2006. Further, in 2007-2013, the ratio average is lower compared to that of neighbouring countries (Figure 2).

Figure 2 Indonesia has a lower tax to GDP ratio average in 2007-2013 compared to neighbouring countries



Source: World Bank's World Development Indicators database

Another indication of revenue performance can be seen from Indonesia's tax effort. Tax effort basically refers to the ratio between the real tax collection and the maximum tax revenue that can be collected (tax capacity).³⁷ The IMF estimated that – based on 1991-2006 data – Indonesia raised 59.8% of its full taxing capacity.³⁸ This proportion has decreased to 42% for 2011.³⁹ As such – based on 1994 to 2009 data – a World Bank study classified Indonesia as a country with low tax effort and tax collection.⁴⁰ This means that revenue is collected below maximum capacity and the agency suggests that more emphasis should be put on revenue enhancement through policy and administration reforms. Another indication, since 2007, is that the DGT was only just able to meet the legislated tax revenue target in 2008 (Figure 3), possibly due to the tax amnesty mentioned earlier. Although one could question how these targets are set, this trend may suggest the DGT's limited capacity.

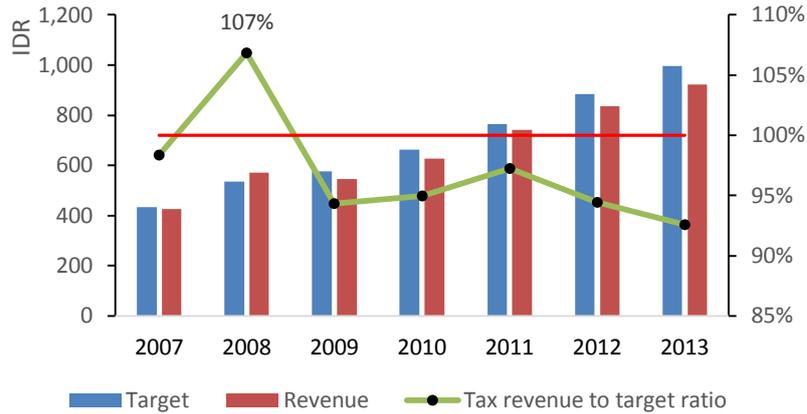
Figure 3 Legislated target was met only in 2008

³⁷ Ricardo Fenochietto and Carola Pessino, 'Understanding Countries' Tax Effort' (2013) *IMF Working Paper No WP/13/244*.

³⁸ IMF, *Revenue Mobilization in Developing Countries* (International Monetary Fund, 2011).

³⁹ Fenochietto and Pessino, above n 37.

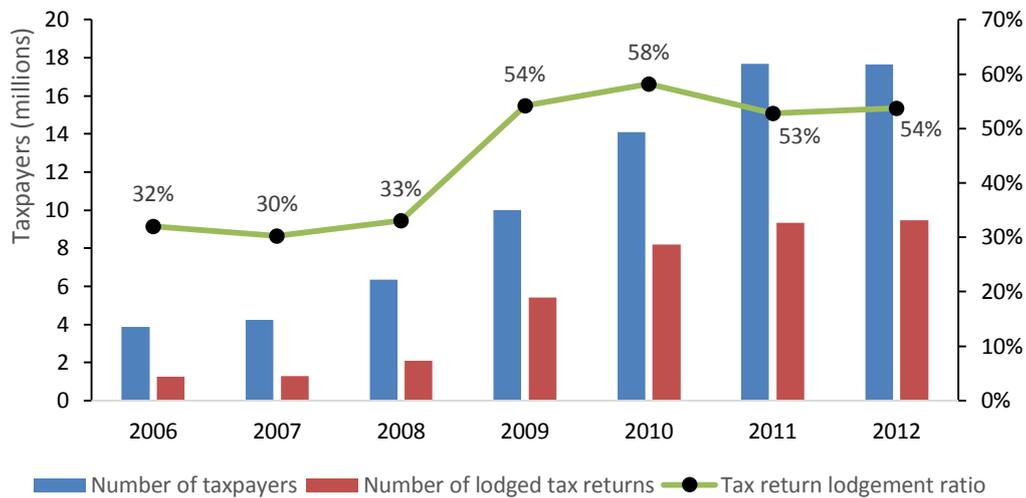
⁴⁰ Tuan Minh Le, Blanca Moreno-Dodson and Nihal Bayraktar, 'Tax Capacity and Tax Effort: Extended Cross-Country Analysis from 1994 to 2009' (2012) *Policy Research Working Paper No 6252*.



Source: Audited central Indonesian government financial statements (2012-2013)

Further, compliance level was also low, a problem already noted by the World Bank in 1994.⁴¹ As an indication, in 2012, approximately only half of taxpayers who were obliged to lodge income tax return did so (Figure 4).

Figure 4 Tax return lodgement ratio remains low



Source: The DGT’s annual report 2010-2012

It can be seen in Figure 4 that following the tax amnesty in 2008, there was a rise in the tax return lodgement ratio – and it continued to increase until 2010 – although the average lodgement ratio in 2006-2012 remains below 50%. It is however interesting to note that when the tax return lodgement ratio shows an increasing pattern in 2008-2010, the revenue performance in the same period moves to the opposite direction (Figure 1).

The self-assessment system relies on voluntary compliance to generate revenue. Theoretically, voluntary compliance is likely to exist if the revenue authority is able to demonstrate a service-client attitude resulting in an increased trust in the authority.⁴² The findings of the AC Nielsen survey from the initial pilot offices – the LTO, MTO, and STO projects – seem to be consistent with this. Also, recognitions from several parties after the completion of the administration reform described earlier seem to indicate the DGT’s commitment to adopting a client-oriented attitude. In terms of revenue, however, the strong growth that was seen in the pilot offices does not seem to be evident once the administration style from the pilot project adopted nationally, despite the fact that there is a continuous GDP rise. This is perhaps related to the low compliance level indicated in Figure 4. This research analyses the difference between tax administration applied in the pilot offices and tax administration currently used and identify whether further improvements to the current tax

⁴¹ Woo, Glassburner and Nasution, above n 6.

⁴² Erich Kirchler, Erik Hoelzl and Ingrid Wahl, 'Enforced Versus Voluntary Tax Compliance: the "Slippery Slope" Framework' (2008) 29(2) *Journal of Economic Psychology* 210.

administration can significantly increase revenue. It also explores other changes that may be required to increase revenue collection.

Significance

This research makes the following contributions:

- 1) It contributes to the literature, in the Indonesian context, by investigating:
 - a. the key principles of a good and effective tax administration;
 - b. essential aspects in increasing tax revenue collection.
- 2) In practice, this research will assist the DGT to meet their role as a revenue-collection agency.

Research Method

A. Research Design

This research uses a mixture of research methods. To answer the first question, interviews with key persons that were involved in the pilot offices will be conducted (see the next section on sampling strategy for more detailed discussion on participant selection). To substantiate the results of the interviews, analysis of documents that were used as legal foundation for the pilot projects will be performed. This will include for example the Indonesian letters of intent to the IMF and the Ministry of Finance regulations related to the formation of the initial pilot offices. Additionally, reports issued by the pilot offices will be analysed to validate the findings from the interviews. This includes for instance reports on tax officials' structure, audit frequency, taxpayer education/service, and revenue collection. Other documents relevant to the performance of the pilot offices' performance – such as the AC Nielson survey report – will form part of the texts to be analysed.

Similar process will be used for the second question. Here, interviews with tax officials who were involved in the pilot offices and are now still actively employed by the DGT will be conducted to obtain a comparison between the two era. Additional interviews with selected current tax officials from tax offices in Central Jakarta will be required to achieve a wider perspective and for confirmation on the current practice. These tax offices are the same offices that were part of the pilot project. Analysis of recent reports released by these offices will also be conducted to verify the results on these interviews. To validate the findings and obtain deeper understanding, further interviews will be held with academics and tax practitioners/trainers.

Lastly, for the third question, legal research at a policy level on the current tax administration legislation – such as Law No 28 of 2007 and Government Regulation No 74/2011 – will be conducted. The focus is on these rules because it has been shown in the literature that further revenue may be obtained by improving administration.⁴³ However, Indonesian tax administration has been indicated to be weak with poor enforcement and low compliance that eventually leads to low tax revenue,⁴⁴ although, according to the OECD, the Indonesian tax policy design has closely followed international best practice.⁴⁵ As the goal is to generate ideas for improvements, it thus constitutes an applied non-doctrinal legal study.⁴⁶ Here, new thoughts – such as using financial information to check compliance (which is currently not applicable) – will be elaborated. Findings from this legal study will be validated using interviews with policy makers at the DGT head office and Fiscal Policy Office. Interviews with tax consultants and academics mentioned earlier will also cover this issue. Documents from international bodies – such as analysis from OECD, IMF, and World Bank – are important to obtain a global perspective.

Data from those interviews will be analysed using the following steps:⁴⁷

- 1) Identifying the researcher's bias by noting existing assumptions followed by assessing transcribed interviews to obtain an overall feel of the data. The researcher's long involvement with the Indonesian tax office may have caused such assumptions to build up. Setting these aside – known as bracketing in phenomenology – is crucial to ensure that the researcher is open to new ideas and concepts.

⁴³ Ikhsan, Trialdi and Syahril, above n 14.

⁴⁴ IMF, *Indonesia: Selected Issues*, IMF Country Reports No 11/310 (International Monetary Fund, 2011).

⁴⁵ OECD, *OECD Economic Surveys: Indonesia 2012* (OECD Publishing, 2012).

⁴⁶ Paul Chynoweth, 'Legal Research' in Andrew Knight and Leslie Ruddock (eds), *Advanced Research Methods in the Built Environment* (Wiley-Blackwell, 2008) 28.

⁴⁷ Zina O'Leary, *The Essential Guide to Doing Your Research Project* (Sage Publications, 2nd ed, 2014).

- 2) Reducing and coding data into themes. Themes are explored by identifying repeated words, concepts, metaphors, or analogies. As compliance is critical for tax administrator in raising revenue, this research uses taxpayer compliance model as a guide. Here, the slippery-slope framework⁴⁸ will be used. This framework is chosen because it integrates a wide-range of views that shape taxpayer compliance.⁴⁹ It suggests that compliance can be achieved through voluntary or enforced mechanism, and tax administrator has an important role in this area. Therefore, this research uses concepts such as compliance, taxpayer service, audits, or penalties found in this model as starting themes.
- 3) Identifying relationships between themes and creating a theme map where commonalities and divergences among themes are identified. For example, imposing penalties may result in increased voluntary compliance if it is fair. Conversely, penalties may decrease compliance if it is arbitrarily applied. As a result, these two themes are related, either positively or negatively. Again, the slippery-slope framework is useful as a guide.
- 4) Developing concepts and drawing conclusion. In this process, overall findings are summarised and linked back to the research questions. Then, the result of the analysis will be returned to participants to check its accuracy and seek additional input.

Documents will be examined as follows:⁵⁰

- 1) Collecting the documents, such as reports, from DGT's head office, LTOs, MTO and STOs in Jakarta. Legal documents are generally publicly available and usually are not difficult to obtain.
- 2) Organising the collected documents into themes. Again, the guiding principle is the slippery-slope framework as described in the interview analysis. The relationship of themes resulting from document analysis and themes resulting from interviews will be identified as well.
- 3) Assessing the documents' credibility, authenticity, and bias.
- 4) Exploring the background of the documents. This includes for example the document's creator, the purpose of creation, or the context of creation. For legal documents – such as legislation – these usually can be found in the elucidation sections. The background of other documents – such as reports or letters of intent – can usually be traced starting from their creator or the context of their creation.
- 5) Exploring document contents of the by analysing key information and noting occurrences of keywords. The principles of theme analysis described previously apply in this stage as well.

B. Sampling Strategy

The nature of data collection leads to the use of purposive sampling. Using snowball sampling, an associate that was involved in the pilot office is selected as participant and then asked to nominate new participants who have similar experiences. Participants outside this group is selected using maximum-variation sampling from:

- 1) Officials from the Fiscal Policy Office at the Ministry of Finance as they are in charge in setting policy related to taxation at a macro level.
- 2) Tax officials from the DGT head office as they are in charge in the DGT organisational processes.
- 3) Current tax officials from tax offices in Central Jakarta to provide an up-to-date perspective on the current practice of tax administration.
- 4) Tax consultants/trainers at the Danny-Darussalam Tax Center (DDTC) and College of State Accountancy (Sekolah Tinggi Akuntansi Negara/STAN) Tax Center. These centres are chosen because of their different segments. DDTC focuses on clients with international issues while the latter covers mainly domestic taxation. This diversity is expected to result in different views and thus, contribute to richer knowledge.
- 5) Academics who will provide a broader and more conceptual view. This will consist of academics from Institut Pertanian Bogor/IPB (Bogor Institute of Farming) and the University of Indonesia (UI). An economist from the IPB was known to have conducted an experiment on taxpayer compliance and UI is known to have leading scholars in Indonesian taxation.

Patton states that pre-determining sample size for this type of study is often difficult⁵¹ as sample size depends on informational redundancy, a concept where no new information emerges from additional sample.⁵²

⁴⁸ Kirchler, Hoelzl and Wahl, above n 42.

⁴⁹ Erich Kirchler, Stephan Muehlbacher and James Alm, 'Combining Psychology and Economics in the Analysis of Compliance: from Enforcement to Cooperation' (2012) 42(2) *Economic Analysis and Policy* 133.

⁵⁰ O'Leary, above n 47.

However, literature shows that such redundancy can be obtained from 12 interviews.⁵³ Similarly, when studying life stories of bakery workers, Bertaux states that adding new participants from already-obtained 15 stories only confirms what is already known with a few additional minor variations.⁵⁴

In this study, the number participants is estimated to be 27 (details in Appendix). It is possible that some are unwilling to participate, leaving an approximate of 22 participants. Data will be collected using interviews with all participants unless redundancy is achieved at an earlier stage. Each interview will be transcribed and is estimated to take no more than 90 minutes. Participants from tax officials will cover at least account representatives (AR), auditors, and tax collectors. These positions are selected because they have different roles. An AR is mainly responsible to provide services to taxpayers and not for enforcement activities,⁵⁵ as opposed to auditors and tax collectors who are the main enforcement arms.⁵⁶ It is expected that this would lead to a more complete picture of tax office's efforts to increase compliance from both voluntary and enforced routes. This process requires fieldwork to be undertaken at the DGT head office and selected tax offices in Indonesia. Fieldwork will also involve interviews at IPB campus in Bogor and UI campus in Depok, all in the south of Jakarta. The last interviews will take place at the DDTC Office in Jakarta and STAN Tax Center in Banten.

C. Validity and Reliability

Generally, validity refers to the accuracy of the finding.⁵⁷ It seeks to see if '...the researcher sees what he or she thinks he or she sees'.⁵⁸ Reliability, on the other hand, calls for consistency and thus, puts emphasis on repeatability.⁵⁹ Some qualitative researchers, however, are reluctant to use these terms and instead choose to use standards such as credibility, transferability, dependability, and confirmability for the same purpose.⁶⁰

In this research, some of the data is collected by interviewing tax officials. It may be argued that the findings may have bias towards tax officials' view. This concern will be addressed by substantiating the tax officials' view with tax consultants' and academics' perspective. The results would be a combination of different views from tax administrators on one end and tax consultants on the other end with academics lie somewhere inside the continuum. Tax officials' view will also be checked using analysis on legal documents and official reports.

Another concern that might be raised is whether the sample size is sufficient. It has been argued in previously that sample size depends on data saturation. Literature suggests that saturation can be achieved from 12⁶¹ or 15⁶² interviews. This research uses an approximate of 22 participants, which is higher than what is indicated in literature. Interviews will be conducted with all participants unless saturation is achieved earlier. Additionally, participants are selected from various backgrounds. The rationale is that this research expects – in addition to addressing bias – various views (sometimes opposing) be represented and thus, results in a more complete examination of tax administration in Indonesia. To some extent, this supports this research's transferability.

Ethical Issues

Ethics approval will be sought from the Ethics Committee to ensure that the research is conducted in a manner that maintains integrity and protects the research participants.

⁵¹ Michael Quinn Patton, *Qualitative Research and Evaluation Methods* (Sage Publications, 3rd ed, 2002).

⁵² Yvonna S Lincoln and Egon G Guba, *Naturalistic Inquiry* (Sage Publications, 1985).

⁵³ Greg Guest, Arwen Bunce and Laura Johnson, 'How Many Interviews Are Enough?: An Experiment with Data Saturation and Variability' (2006) 18(1) *Field Methods* 59.

⁵⁴ Daniel Bertaux, 'From the Life-History Approach to the Transformation of Sociological Practice' in Daniel Bertaux (ed), *Biography and Society: the Life History Approach in the Social Sciences* (Sage Publication, Inc, 1981) 29.

⁵⁵ Ministry of Finance Regulation No 98/KMK.01/2006 as has been amended by Ministry of Finance Regulation No 68/PMK.01/2008.

⁵⁶ Law No 19/2000; Ministry of Finance Regulation No 132/PMK.01/2006 as has been amended by Ministry of Finance Regulation No 67/PMK.01/2008.

⁵⁷ John W Creswell, *Qualitative Inquiry and Research Research Design: Choosing Among Five Approaches* (Sage Publications Inc, 3rd ed, 2013).

⁵⁸ Jerome Kirk and Marc L Miller, *Reliability and Validity in Qualitative Research* (Sage Publications, 1986).

⁵⁹ Margarete Sandelowski, 'The Problem of Rigor in Qualitative Research' (1986) 8(3) *Advances in Nursing Science* 27.

⁶⁰ Lincoln and Guba, above n 52.

⁶¹ Guest, Bunce and Johnson, above n 53.

⁶² Bertaux, above n 54.

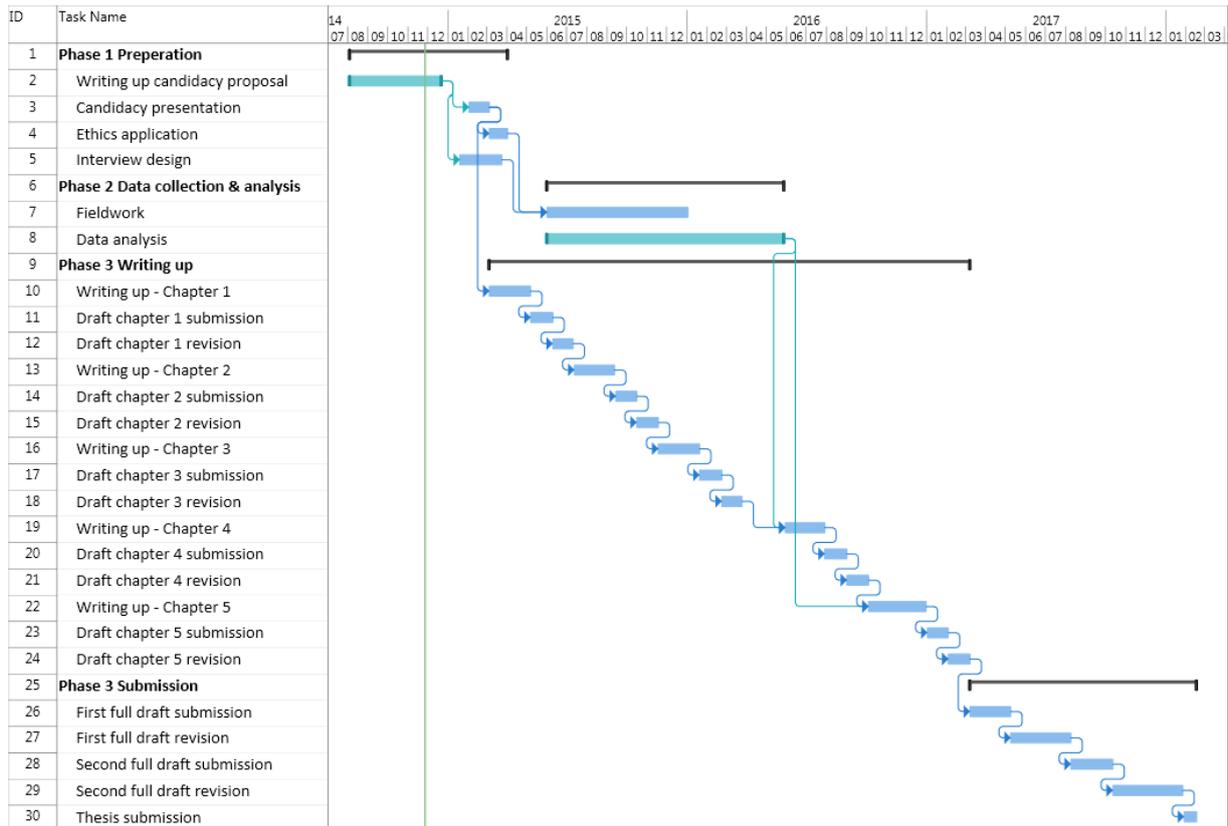
Facilities and Resources

This research does not need any specialised equipment. General facilities provided by the University – such as office supplies and information technology facilities – are sufficient.

Data Storage

Electronic data from this study will be stored in a password-protected computer. A copy of this data will be stored in the University storage facility. Interview recordings will be destroyed upon completion of the study. Interview transcripts, however, will be stored for five years and may be destroyed once this period ends.

Time Schedule



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Appendix: Participant Details

Initial sample size				
1. Pilot Offices				
Office Type	AR	Auditor	Collector	Total
LTO	1	1	1	3
MTO	1	1	1	3
STO	1	1	1	3
Total	3	3	3	9
2. Current tax offices				
Office Type	AR	Auditor	Collector	Total
LTO	1	1	1	3
MTO	1	1	1	3
STO	1	1	1	3
Total	3	3	3	9

Number of interviews		27
1	Directorate General of Taxes	21
a	Head Office	3
1	DGT secretariat	1
2	Business Process Transformation Directorate	1
3	Internal Compliance Directorate	1
b	Pilot Offices	9
1	LTO	3
2	MTO	3
3	STO	3

c	Current tax offices	9
1	LTO	3
2	MTO	3
3	STO	3
2	Tax consultants/trainers	4
a	DDTC	2
b	STAN tax center	2
3	Academics	2
a	IPB	1
b	UI	1