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Transformation Proposal for Tax Audit Policy in Indonesia: A Comparative Study on the Implementation of Tax Audit Policy in the Netherlands

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ABSTRACT

A tax audit policy is intended to increase taxpayer compliance and trust towards tax authority. In Indonesia, the low level of trust carried out by tax audits observed from the taxpayer compliance level shows the shortcoming of implementing the tax audit system. Based on this phenomenon, this study is conducted to describe problems regarding the implementation of tax audit policy in Indonesia and provide recommendations for the Indonesian tax authority to transform tax audit policy practised by the tax audit system in the Netherlands. The Netherlands was selected as the research site, for this country is one of the OECD pioneers and has been part of AEoI. This study applied a qualitative approach. An in-depth interview was used to collect the data from competent parties in tax audits, both in Indonesia and the Netherlands. The findings showed that two factors caused the shortcoming of the tax audit system in Indonesia. First, the database was not maximal due to nonoptimal digitalisation and data integration. Second, the selection system for taxpayers to be audited was closed. Therefore, this study recommends that tax authorities in Indonesia develop an accountable and reliable tax audit system as implemented by tax authorities in the Netherlands. Tax audit optimisation can be done by increasing the database through digitalisation and data integration to facilitate information exchange. After implementing policy transformation, it is expected that taxpayer compliance and tax legitimacy will also increase.

A. INTRODUCTION

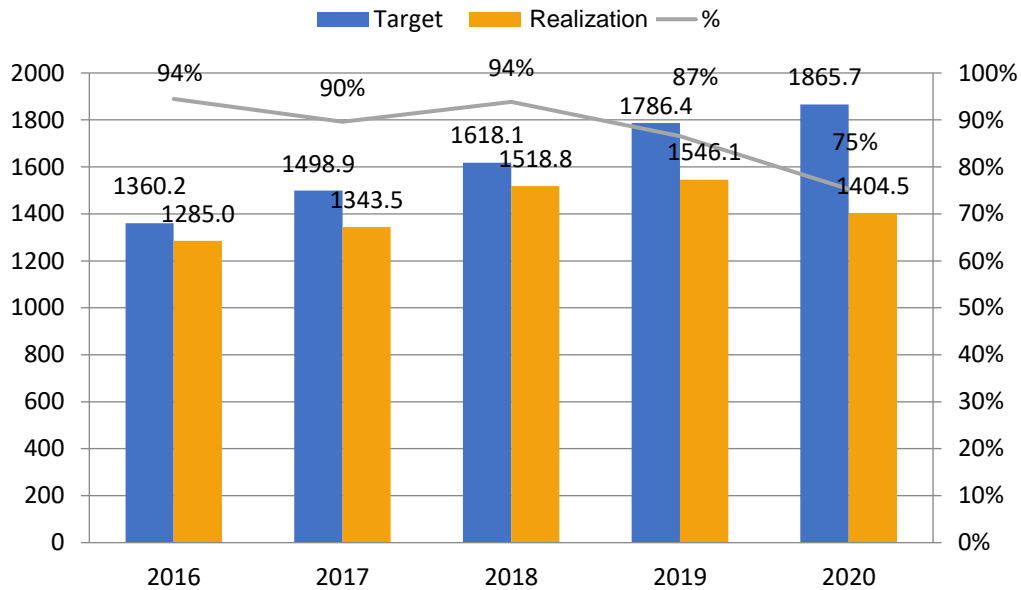
Tax revenue is the primary source of revenue for a country's economy, including Indonesia. Even now, the tax revenue in Indonesia never reaches the target. Although government spending increases significantly every year, it is miserable that tax revenue realisation has not yielded the expected target for recent years. As described in Graph 1, since 2016, tax revenue realisation has always been lower than the target of tax revenue. One factor which caused low tax revenue until 2020 was taxpayer non-compliance. It was observed that

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taxpayers did not report their tax obligations accurately, ultimately, and both periodical and annual tax reports.

Graph 1. Target and Realisation of Tax Revenue in Indonesia (In Trillion)



Source: State Budget in 2016, 2017, 2018, 2019, 2020 (Reanalysed by the Researcher, 2021)

Indonesia’s low taxpayer compliance level is inseparable from the self-assessment taxation system adopted in Indonesia. Its implementation requires taxpayers to actively carry out their tax obligations, such as paying and reporting taxes accurately and promptly. In addition, nowadays, taxpayers who commit tax avoidance and tax evasion are still often found. Tax authority begins tax audit procedures to test taxpayer compliance and maintain law enforcement to deal with this matter. However, taxpayers perceive that the current tax audit system still creates dissatisfaction and potential distrust towards the government, especially regarding taxpayers’ legal certainty and distributive justice.

Taxpayer non-compliance can be identified from two perspectives: administrative and non-administrative. From an administrative perspective, taxpayers experience a lack of awareness when reporting their taxes correctly and entirely according to tax provisions. As shown in Graph 2, it is seen that compared to the number of registered taxpayers, there have been only a few taxpayers reporting their tax obligations since 2016.

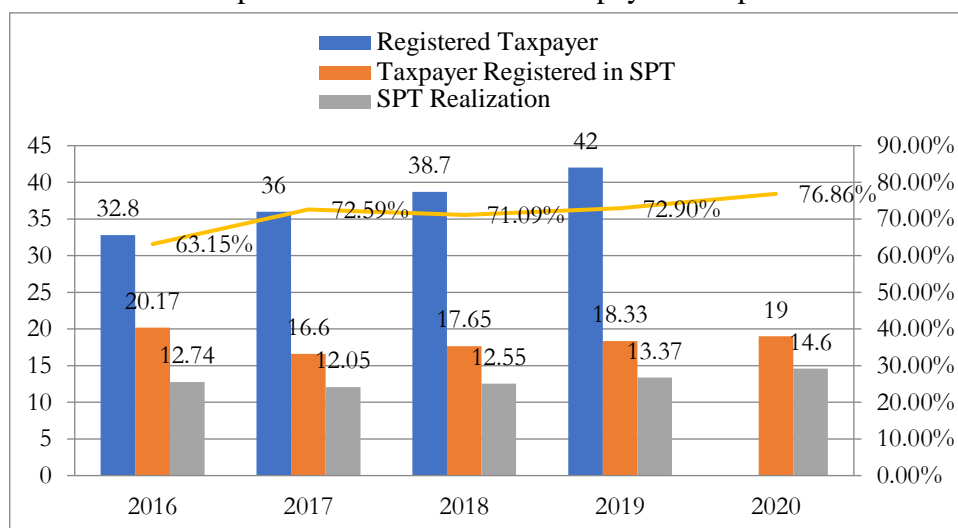
Meanwhile, viewed from a non-administrative perspective, taxpayer non-compliance takes advantage of the tax loophole to reduce tax burden through tax avoidance or tax evasion scheme. The example is an illegal action of hiding the amount of income to avoid paying the tax liability.

Tax reform in Indonesia has been carried out since 1983, which changed the tax administration system from official assessment to self-assessment taxation system. It is generally undertaken to improve tax administration and strengthen taxpayer compliance. The new tax administration system offers taxpayers to fulfil their tax obligations and rights. Through this system, taxpayers are obliged to register, calculate, pay, report, and determine the amount of tax owed by filling in the Annual Tax Return accurately and adequately. In the self-assessment system, the function of tax authority shifts to tax dissemination, tax service and law enforcement. Among these three functions, tax audit falls into the law enforcement function. It is intended to test compliance and provide a deterrent effect for taxpayers who do not fulfil their tax obligations accurately and adequately.

A tax audit is considered one of the efforts to confirm tax compliance either formally or materially. As stated in the economics-of-crime approach, the probability of reducing tax evasion depends mainly on the higher likelihood of being audited (Ratmono & Cahyonowati, 2013). Quoted from Togler and Schneider (2004), Ratmono Cahyowati points out that a well-implemented legal system and tax law enforcement will enhance citizens' trust, as occurred in Austria.

A tax audit examines an individual's or an organisation's tax return by the tax authority to ensure compliance following applicable state laws and regulations (Badara, 2012). It is a form of law enforcement towards self-assessment system carried out by taxpayers and becomes one of the pillars of law enforcement (Irawan & Budiono, 2015). Tax audit planning will determine the criteria of taxpayers to be audited based on risk factors. This risk criterion helps measure material error rate in a report, which is further used to determine the audit in depth. In addition, by selecting risk criteria, the work performance of tax authority will be facilitated; tax officers will not be able to audit all registered taxpayers due to a limited number of tax examiners (OECD, 2004).

Graph 2. Statistical Data of Taxpayer Compliance



Source: (DJP, 2018) (HISCONSULTING, 2019) Reanalysed by the Researcher, 2021

In tax audit, effective audit case selection will positively influence perception. Compliant taxpayers will have a lower risk of being audited than non-compliant taxpayers. Consequently, a tax audit is efficiently carried out to focus more on non-compliant taxpayers. Tax audit that does not consider the level of taxpayers' compliance will affect the low effectiveness of tax audit. Therefore, it is necessary for selecting a systematic approach to determine taxpayers to be audited. The systematic approach generally implemented by the tax administration in various countries is risk-based. Based on this approach, one of the crucial factors is the risk of taxpayers' non-compliance, which is explained as the risk borne by tax administration (or the government in general) in the form of taxes at risk (OECD, 1997).

Indonesia entered the era of automatic exchange of tax information in 2018. The automatic Exchange of Information era enables tax authorities to locate a wide range of data and access regarding taxes multilaterally. Automatic Exchange of Information (AEOI) is an agreement among countries joining as members of the G20 and the Organization for Economic Cooperation and Development (OECD), which intends to implement transparency standards in the automatic exchange of information/data to prevent tax avoidance practices. The exchange of information is carried out using the Common Reporting Standard (CRS) system or Joint

Reporting Standard between cross-border tax authorities. AEOI enables coordination of the exchange of financial information between countries to prevent tax avoidance and tax evasion. A bilateral or multilateral agreement between countries provides the exchange of information. According to the cooperation agreement, the automatic exchange of knowledge covers all information relating to tax purposes between the Indonesian government and the jurisdiction or partner jurisdiction.

Apart from Indonesia, there are about 100 countries that are members of the tax information disclosure cooperation (OECD, 2016). In 2020, the number of countries that signed the cooperation agreement on the information exchange was 144 countries, including Indonesia (Kementerian Keuangan (DJP), 2017). Indonesia became a member of AEOI after the Tax Amnesty program ended on 31 March 2017.

Graph 3. List of Partner Jurisdictions EOIR Indonesia 2020

1	Albania	26	Canada	51	Ghana	76	Latvia	101	Papua New Guinea	126	Suriname
2	Algeria	27	Cayman Island	52	Gibraltar	77	Lebanon	102	Peru	127	Sweden
3	Andorra	28	Chile	53	Greece	78	Liechtenstein	103	Philippines	128	Switzerland
4	Anguilla	29	China (People's Republic)	54	Greenland	79	Lithuania	104	Poland	129	Syria
5	Antigua and Barbuda	30	Chinese Taipei	55	Grenada	80	Luxembourg	105	Portugal	130	Tajikistan
6	Argentina	31	Colombia	56	Guatemala	81	Macau (China)	106	Qatar	131	Thailand
7	Armenia	32	Cook Sidlands	57	Guernsey	82	Malaysia	107	Romania	132	Tunisia
8	Aruba	33	Costa Rica	58	Hong Kong (China)	83	Malta	108	Russia	133	Turkey
9	Australia	34	Croatia	59	Hungary	84	Marshall Islands	109	St Kitts and Nevis	134	Turks & Caicos Islands
10	Austria	35	Curacao	60	Iceland	85	Mauritius	110	St Lucia	135	Uganda
11	Azerbaijan	36	Cyprus	61	India	86	Mexico	111	St Vincent & Grenadines	136	Ukraine
12	The Bahamas	37	Czech Republic	62	Iran	87	Moldova	112	Samoa	137	United Arab Emirates
13	Bahrain	38	Denmark	63	Ireland	88	Monaco	113	San Marino	138	United Kindom
14	Bangladesh	39	Dominica	64	Isle of Man	89	Mongolia	114	Saudi Arabia	139	USA
15	Barbados	40	Dominican Republic	65	Israel	90	Montenegro	115	Senegal	140	Uruguay
16	Belarus	41	Ecuador	66	Italy	91	Monstserrat	116	Serbia	141	Uzbekistan
17	Belgium	42	Egypt	67	Jamaica	92	Morocco	117	Seychelles	142	Vanuatu
18	Belize	43	El Salvador	68	Japan	93	Nauru	118	Singapore	143	Venezuela
19	Bermuda	44	Estonia	69	Jersey	94	Netherlands	119	Sint Maarten	144	Vietnam
20	Brazil	45	Faroe Islands	70	Jordan	95	New Zealand	120	Slovak Republic		
21	British Virgin Island	46	Finland	71	Kazakhstan	96	Nigeria	121	Slovenia		
22	Brunie Darussalam	47	North Macedonia	72	Korea (DPR)	97	Niue	122	South Africa		
23	Bulgaria	48	France	73	Korea (Republic)	98	Norway	123	Spain		
24	Cabo Verde	49	Georgia	74	Kuwait	99	Pakistan	124	Sri Lanka		
25	Caneroon	50	Germany	75	Lao PDR	100	Panama	125	Sudan		

Source: Reanalysed by the Researcher following P3B, TIEA, and MAC per May 2020 (Kementerian Keuangan (DJP), 2017)

With this agreement, taxpayers' countries of origin can check taxpayer reporting and ensure that income or offshore asset has been reported accurately. Possible information exchange in the AEOI includes dividends, interest, royalties, income, pension, changes in residency, request for Value Added Tax refund and customer financial information.

The AEOI momentum is beneficial for the Indonesian tax authority transform tax audit policy implementation into more effective. It will undoubtedly increase taxpayer compliance and realise tax revenue if it runs more effectively. The tax authority will have a complete database through the information exchange, which can quickly and effectively identify and analyse the risks of various taxpayer noncompliances. In addition, the data and information can also be used as a reference in providing predictions when taking corrective actions, including efforts of law enforcement, detecting loopholes in tax leakage and overcoming tax evasion practices that taxpayers may carry out.

The tax information exchange in 2018 was established after the Indonesian tax authority implemented the Tax Amnesty program from July 2016 to March 2017 with 3 (three) sequential periods. The focus of the Tax Amnesty Program is improving law enforcement and audit within the scope of the tax audit. The target of this tax audit program is taxpayer data. In its implementation, the Directorate General of Taxes will map assets along with their classification, then perform profiling by comparing data obtained from income, support, and tax payments to determine the actual economic capacity of taxpayers. Joining as a part of AEOI,

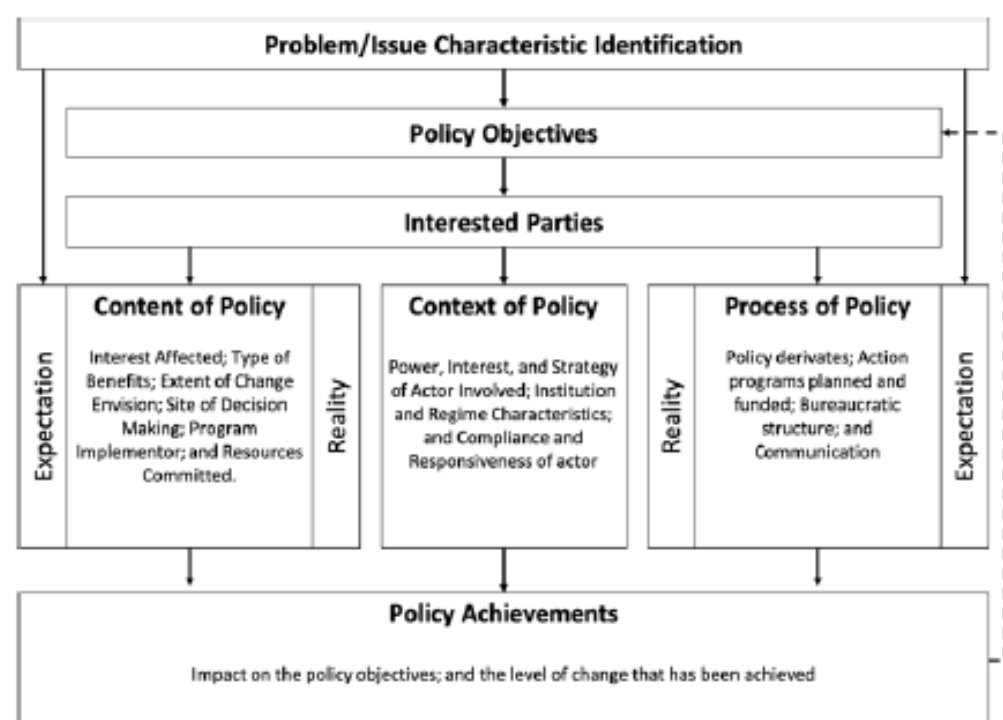
Indonesia is also inseparable from the expected target of Tax Amnesty. The Directorate General of Taxes data showed that according to the declaration of taxpayer assets of IDR 4,880 trillion or 122%, the repatriated fund was only IDR 146 trillion or only in the range of 14.6% (Direktorat Jenderal Pajak, 2016). It indicated that many non-compliant taxpayers still did not report their assets when returning to Indonesia for various reasons until the end of the Tax Amnesty period.

In its implementation, some parties are involved in this agreement, such as financial service institutions and financial institutions (Kementerian Keuangan RI, 2017). However, the information exchange provided in AEOI has not significantly influenced the realisation of Indonesian tax revenue started from the implementation of AEOI in the last September 2018 to the year 2020 (Edi Suwiknyo, 2018). It became the rationale of conducting this study to find out the Indonesian tax audit system's shortcomings by comparing it with the applicable tax audit system in the Netherlands. The study results are expected to provide input to the tax authority in Indonesia to transform audit policy, which further improves tax audit policy to comply with international standards and increases trust and compliance among taxpayers.

B. LITERATURE REVIEW

This research used the theory of the Policy Analysis Triangle initiated by Mubarak, Zauhar, Styowati, and Suryadi (2020). The concept was developed after elaborating the policy implementation theory by George Edward III (1980), Marilee S. Grindle (1980), Mazmanian and Sabatier (1983), Nugroho (2012), and Winarno (2007). These theories were elaborated into seven new dimensions to analyse the implementation of the policy (Mubarak et al., 2020): (1) problem/issue characteristic identification; (2) policy objectives; (3) interested parties; (4) content of policy; (5) context of policy; (6) process of policy; and (7) policy achievements.

Figure 1. Policy Analysis Triangle Model



Source: (Mubarak et al., 2020)

This theory describes the implementation process models to see control and compliance (Ali, 2020) as two crucial components in the implementation procedure of tax audit policy. In addition, this model is much more relevant to compare the implementation of tax audit policy between countries. The variables represent suitable components required in the implementation process to see the shortcoming of the policy implementation process. Consequently, this study could provide accurate recommendations for carrying out the transformation of tax audit policy in Indonesia

Empirical Studies

Tax audit as part of AEOI is a relatively new research topic. It was started in 2017, three years after signing a treaty between G20 and OECD in 2014. In Indonesia, the data exchange-based tax audit under AEOI began in 2018. Until recently, there have been only a few studies on AEOI. First, the research title was “The Effect of Knowledge of Automatic Exchange of Information (AEOI) and Tax Sanction on Taxpayer Compliance concerning Tax Payment and Report (An Empirical Study of Individual Taxpayers at KPP Prata Singaraja), written by Andiani, Yuniarta, and Yasa in 2017 (Andiani et al., 2017). This research aims to find the effect of knowledge of the AEOI system and tax sanctions on individual taxpayer compliance concerning tax payment and reports. The study was conducted by testing the correlation between knowledge of AEOI and tax sanction towards taxpayer compliance. The finding revealed that the variable of understanding of the AEOI system (X1) showed a positive and significant correlation with individual taxpayer compliance concerning tax payment and report. Similarly, it was also found that the variable of tax sanction (X2) was positively and significantly correlated with individual taxpayer compliance concerning tax payment and reports. It can be concluded that knowledge of the AEOI system and tax sanctions affect taxpayer compliance and successful implementation of tax audit policy.

The other AEOI research was conducted in 2019 by Dini Onasis entitled “The Effect of the Implementation of AEOI (Automatic Exchange of Information), Tax Sanction, and Taxpayer Awareness on Taxpayer Compliance at KPP Pratama Pekanbaru Senapelan” (Onasis, 2019). The purposes of this research are to know the effect of 1) the implementation of AEOI perception; 2) Tax sanction; and 3) Taxpayer awareness of tax payment compliance at KPP Pratama Pekanbaru Senapelan. The correlation among three variables (AEOI implementation, tax sanction, and taxpayer awareness of tax payment compliance) was tested. The result of the study showed that AEOI had a positive and significant correlation with taxpayer compliance at KPP Pratama Pekanbaru Senapelan. It indicates that the successful implementation of tax audit policy is influenced by AEOI implementation, tax sanction, and taxpayer awareness of tax payment compliance.

In 2020, Febyani and Widodo carried out research entitled “The Role of AEOI in Disclosing Tax Information to Increase Tax Revenue in Indonesia” (Febyani & Widodo, 2020). This study aims to find and analyse the role of AEOI in increasing state revenue from the tax sector in Indonesia. It was carried out to the extent that AEOI can impact Indonesia’s tax revenue. The finding indicated that the participation of Indonesia in multilateral cooperation to disclose tax information was an attempt to increase tax revenue. In this respect, tax officers or the government could track down taxpayers’ foreign assets to reduce tax evasion and tax avoidance and finally positively impact tax compliance. It can be learnt from the finding that the participation of Indonesia in AEOI helps tax authorities increase the realisation of tax revenue. Based on these three previous studies, the conclusion can be drawn that the involvement of Indonesia in AEOI positively impacted the implementation of tax administration. The tax authority has information exchange access to track down taxpayers’ foreign assets to prevent any possibility of tax evasion and tax avoidance practices.

The research discussing the implementation of tax audit in the AEOI era in Indonesia to observe the performance, obstacle/challenge, and the problem has never been carried out before. Therefore, it is crucial to study the implementation process, obstacle/challenge, and issue by comparing the implementation of the Dutch tax audit policy. This study is expected to provide a holistic description of the performance of tax audit policy at a national scale, various problems, and recommendations for carrying out policy transformation so that the implementation is more effective following international standards. These issues become the novelty of this research.

C. METHOD

This study used a qualitative approach. Data were collected from in-depth interviews and literature studies. Then the data was transcribed and categorised into variables. The data were analysed by comparing tax audit policies in the two countries. Qualitative data triangulation is done by collecting several data sources to ensure their validity through triangulation analysis. More objective results will provide exact recommendations for tax authorities in Indonesia to carry out the tax audit's policy transformation.

An in-depth interview was conducted to collect information from the Indonesian Tax Authority (The Directorate General of Taxes), academics majoring in tax audit in Indonesia, and other academics from Tilburg University, Maastricht University, and the University of Amsterdam in the Netherlands. The Dutch academics were selected as the research informants for three reasons: they teach at universities, are tax practitioners/tax consultants, and give input to the development of tax audit system in the Netherlands and OECD organisation in the European Union. Library research was also used by learning about regulations and tax authority reports.

The Netherlands was selected as the research site, for this country has implemented bank information disclosure and regulations concerning tax audit systems. The Netherlands was one of the Organization for European Economic Co-operation (OEEC) pioneers in 1948, and this organisation was reformed into the Organization for Economic Co-operation and Development (OECD). In February 2009, Indonesia became a member of the Organization for European Economic Co-operation (OEEC). Besides, it is undeniable that Indonesia's taxation system is a legacy of the Dutch colonial period. Even though Indonesia's taxation has carried out reforms, other taxation systems still adopt the Dutch. Therefore, the Dutch taxation system could be applied as a benchmark to develop a tax audit system in Indonesia to comply with the OECD standard.

D. RESULT AND DISCUSSION

After participating in the AEOI agreement, the tax authority has a broader range of access to perform tax audits. To support the role of the tax audit, the Ministry of Finance issued PMK-No.70/PMK.03/2017 on Technical Guide on Access to Financial Information for taxation. The regulation was updated with PMK No.73/PMK.03/2017, and the last update was PMK No.19/PMK.03/2018. The law of the Minister of finance regulation requires banks to report customer accounts with a minimum balance of 1 (one) billion Rupiah.

Furthermore, the tax authority has direct access to taxpayers' data and information from banks, capital markets, insurance, and other financial service institutions. This policy is the latest breakthrough, considering that formerly, the tax authority has no access to data of taxpayers' finance without a financial institution license. A data request is limited only to taxpayers suspected of committing tax crimes and included in the category of special examination.

According to laws and regulations, a tax audit constitutes inspection under tax authority (Adediran et al., 2013). The audit process is an essential instrument for managing tax administration effectively and efficiently, especially in jurisdictions with a self-assessment system. The purpose of the tax audit is to detect taxpayers who do not fulfil their tax obligations. It is done to improve compliance and educate taxpayers regarding tax obligation fulfilment. The accurate strategy for selecting taxpayers to be audited must be well-prepared using a random system (James & Alley, 2002). In line with that, tax audits are regarded as a pillar of law enforcement against taxpayers based on the principles of fairness and transparency.

One of the types of supervision carried out is a tax audit to monitor taxpayer compliance. The audit implementation is based on the tax audit guidelines, including Tax Audit General Guideline, Tax Audit Implementation Guideline, and Tax Audit Report Guideline. However, many taxpayers disobey this provision according to the target data, the realisation of tax revenue, and the level of taxpayer compliance. It is the basis for researching problems in implementing tax audit policy. The study results are expected to provide recommendations for transforming tax audit policy in Indonesia.

Before giving recommendations for carrying out transformation regarding the implementation of tax audit policy, this research first compared the performance between the Indonesian tax audit and the Dutch tax audit using the concept of Policy Analysis Triangle (Mubarok et al., 2020). The displayed analysis through triangulation observed similar/dissimilar implementation variables between countries.

1. Analysis of Problem/Issue Characteristic Identification

This variable is a component that explains the background of policy formulation. In the context of tax audit policy, the experience of tax audit policy in Indonesia, the Netherlands, and other countries, is arranged based on tax violations through tax avoidance and tax evasion schemes. Not infrequently, some taxpayers choose to place their funds in other countries with smaller income tax rates than those of their country of origin, especially corporate income tax so that the tax deduction can be minimised. Tax administration will result in potential losses such as tax loss and tax gap, significantly impacting state tax revenue. In Indonesia, this phenomenon can be viewed from comparative data on the realisation of tax revenue that has not yielded the expected target and data on the level of taxpayer compliance shown previously.

2. Analysis of policy objective variables (policy objectives)

This variable is a component of reviewing the relevance of the achievement of policy objectives with the underlying issues for policy formulation. Both Indonesian and Dutch governments have developed tax audit policies to avoid tax avoidance and evasion in policy objectives. This policy is expected to minimise the practice of tax avoidance and tax avoidance and tax loss and tax gap, which will indirectly impact increasing taxpayer compliance, achieving the realisation of the planned tax revenue target to maximise state revenue. Tax revenue and gain the public's trust (tax legitimacy).

3. Analysis of interested parties variable (Interested parties)

This variable is a component of identifying the actors involved in policy implementation. In the tax audit policy, the interested parties are the government, represented by the taxation authority, and business taxpayers (business taxpayers), especially those whose companies contribute significantly to state tax revenues (business taxpayers). The institution that has the authority to implement this policy is the state tax authority. In Indonesia, this authority lies with the Directorate General of Taxes (DGT) under the coordination of the Ministry of Finance. In the Netherlands, it is under the Dutch Tax Authority (DTA), which is also under the coordination of the Dutch Ministry of Finance.

Meanwhile, business taxpayers who fall into this category (Large Business Taxpayers) are generally companies located in strategic economic sectors that significantly influence the country's economy and make significant contributions to the state to improve the welfare of its citizens. In this aspect, the parties with the most considerable interest are the tax authorities, government representatives, and extensive business taxpayers, who significantly contribute to state revenues. Tax authorities are interested in maximising tax revenue by minimising tax loss and tax gaps through tax audits. Meanwhile, large business taxpayers are interested in getting fair treatment from policy implementers about their business activities significantly impacting state revenues.

The following are business taxpayers categorised as companies that significantly impact tax revenues in various countries.

Table 1. Criteria for Large Entity Taxpayers in Indonesia and the Netherlands (2017)

Countries	Sales	Economic Sector	Taxes Paid	Assets	by Related Entity	Number of Employees	Profit
Indonesia	v	v	v	v			
Netherlands	v	v		v	v	v	

Source: Summarised from DDTC (DDTC, 2020)

Based on the table 1, the criteria for Large Taxpayers in the form of Entities who are also one of the parties who have a significant interest in tax audit policies. It can be seen from the sales value, business sector in the economic sector, amount of tax paid, asset value, number of entities that have a special relationship, the number of employees, and profit. In Indonesia, corporate WB, which is included in the category of Large Corporate Taxpayer, is seen from sales, economic sector, amount of tax paid, and assets. Meanwhile, in the Netherlands, it is seen from sales, financial industry, purchases, number of entities with a special relationship, and number of employees.

4. Content Policy variable (the content of policy)

This variable is a component that compares expectations and the reality that occurs in policy implementation. This variable looks at the comparison between policy expectations and policy reality when the policy is implemented. In tax audit policies, this comparison can be seen from the compliance and trust of taxpayers to tax administration, both regulations, tax officer services, and the tax system.

Research conducted by [Ratmono & Cahyonowati \(2013\)](#) looks at the role of trust in moderating the relationship between deterrence factors, and taxpayer compliance behaviour concludes that tax compliance with tax authorities is influenced by economic variables, such as the probability of tax audits and tax penalties. Taxpayers will tend to show increased compliance if the possibility of being examined by the tax authority and the fines imposed are higher for tax violations. However, the variables of trust in tax authorities, such as the legal system and tax administration, have a more significant influence on tax compliance when compared to economic variables. This research is the basis for linking compliance with trust in the context of tax audits.

Indonesia

The low compliance and trust of Indonesian taxpayers can be seen from [Haniv's \(2020\)](#) research, which examines the effect of cooperative compliance on the submission and trust of taxpayers in the oil and gas industry through Structural Equating Modeling (SEM). The study recommends that the DGT review the cooperative compliance to make taxpayers more

compliant. Based on this, it can be said that the level of taxpayer compliance has not met the expectations of the Indonesian tax authorities. The study also notes that low taxpayer trust is due to the lack of transparency of the tax authorities. Therefore, if the tax authorities want to increase the trust and compliance of taxpayers, they must improve the quality of tax administration services. What can be done is to prioritise transparency and accountability service standardisation, develop standard and practical administrative procedures consistent with the regulations issued, and guarantee legal certainty for taxpayers.

The low compliance of taxpayers can also be seen from Sukada's research (Sukada, 2020) which discusses the process to determine taxpayer compliance (compliance risk management), seen from the awareness of registering as a taxpayer, timely reporting, conformity of data in reporting, and timeliness of payments. Tax. Meanwhile, if the taxpayer does not fulfil one of the four obligations, the taxpayer can be classified as non-compliant. In this case, the low compliance of taxpayers can be seen from the many taxpayers who have not fulfilled their tax obligations due to insufficient knowledge related to taxation.

In addition, it can also be seen from the research of Wilestari and Ramadhani (Wilestari & Ramadhani, 2020), which looks at the influence of understanding, tax sanctions, and the level of trust on compliance in paying Land and Building Tax (PBB). The low level of compliance can be seen from the realisation of PBB revenue which is still below the target set in the APBD. Based on this, the study recommends increasing the quality of tax sanctions to improve taxpayer compliance in fulfilling their tax obligations.

Netherlands

In 2009, Verboon and Goslinga (2009) conducted a study on justice improving tax compliance. The results of this study indicate that the fairness of administrative procedures and the distribution process of tax receipts back to the community affect taxpayer compliance. In the context of tax audits, unfair treatment from tax authorities can reduce taxpayer compliance. In the Netherlands itself, the level of taxpayer compliance can be categorised as high, as stated by Stoop and Gribnau (Huiskers-Stoop & Gribnau, 2019). They conducted research related to the effect of the horizontal monitoring system on taxpayer confidence. The results of Stoop and Gribnau's study show that the system can increase taxpayer trust and compliance, along with the implementation of mutual trust between tax authorities and taxpayers, understanding, and transparency. This is because the formulation of the model is prepared by prioritising trust, mutual understanding, neutrality, balance, transparency, and responsiveness. In addition, the results of Stoop and Gribnau's research also stated that the horizontal monitoring system model is a model by cooperative compliance aimed at increasing taxpayer compliance and trust. Both models are proven to improve taxpayer compliance voluntarily.

Comparative Analysis

Based on the phenomena in the two countries, there are significant differences between expectations and policy realisation in Indonesia. Therefore, it can be said that regulations, tax officer services, and the current and ongoing taxation system have not significantly increased taxpayer compliance and trust. Meanwhile, in the Netherlands, the applicable tax system can increase taxpayer compliance and confidence and align with the model implemented by the OECD.

5. Process of policy variable (the process of policy)

This variable is a component that compares the policy implementation process, such as the structure of the implementing bureaucracy, the program implemented, the program implementation mechanism.

Indonesia

The Indonesian tax audit process begins with issuing a warrant and an audit notification. After that, the DGT will ask the taxpayers for documents for audit purposes. After the records are obtained, the inspection and testing process will begin to be carried out by the DGT. Then, the DGT will issue a notification letter on the tax audit results and a response. After discussing the audit results with the taxpayer, the DGT will return the document to the taxpayer. When conducting tax audits, the DGT will conduct joint audits in Indonesia by coordinating with other institutions, such as the Directorate General of Customs and Excise and Financial and Banking Institutions. Cooperation is carried out by sharing financial data needed during the examination process. If information is required from other countries' tax authorities, the DGT will utilise the AEoI mechanism.

Netherlands

The Dutch tax audit process begins with issuing a letter from the Dutch Revenue Service (DRS) to the taxpayer. After that, the Taxpayer and DRS discussed several things together in advance regarding the scope, duration, and officials involved in the audit. After this stage is passed, the Dutch Tax Authority (DTA) will start conducting tax audits. After the tax audit is complete, the DTA will issue a discussion of the audit results with the taxpayer, and after that, a certificate of tax audit results will be issued. DTA can take advantage of data exchange with various institutions at home and abroad in conducting inspections. However, the DRS's exchange of information is carried out upon request, either during a tax return review or before establishing a tax assessment. Although the disclosure of data in the tax audit process in most cases requires a prior request for information by the DRS, a taxpayer in certain circumstances is needed to disclose the information to the DRS spontaneously. Joint audit by the Directorate of Taxes, the Directorate of Customs and Excise with data from the banking sector.

6. Context of policy variable (context of policy)

This variable is a component to identify aspects that affect the achievement of policy objectives. In terms of tax audit policies, the approach used by the tax authorities in selecting taxpayers to be audited and the mechanism for exchanging data between related organisations are aspects that affect the achievement of policy objectives.

Indonesia

Tax authorities do not yet have a specific approach in conducting tax audits. So far, the determination of taxpayers to be audited is carried out objectively by the Audit Planning Committee, based on qualitative and quantitative data and information. Such data and information include, among others, withholding evidence, information instruments, Output Tax, Input Tax, export proceeds, results of visits, results of observations, and data on asset ownership. The committee formed at the central level is tasked with determining the priority list of taxpayers to be audited throughout the current year, which will be included in the List of Potential Exploration Priority Targets (DSP3). Taxpayers to be audited are determined based on several criteria, including (1) there is a difference in the tax profile with the actual economic profile (tax gap), (2) the existence of a taxpayer's non-compliance mode, (3) there is a significant tax potential from tax gap a successful identification², (4) the ability of taxpayers to pay off their tax obligations (collectability) from several predetermined tax potentials, seen from the value of assets in the Annual SPT, business existence, and the existence of tax bearers, as well as from the flexibility of the authority to determine other criteria that only owned by the Director-General of Taxes. DSP3 will be prepared by each Tax Service Office (KPP), which the Audit Planning Committee will then process into the Audit Priority Target List

(DSPP). Tax audits can be carried out for one or several types of taxes or all kinds. Meanwhile, it is divided into routine inspections and special audits based on the tax audit criteria. Tax auditors' specific audit targets are prepared in an Annual Audit Target List.

The DGT carries out taxpayer criteria risk determination through Corporate Risk Management (CRM), which determines the type of taxpayer profile at three levels of risk, namely low risk, medium risk, and high risk. Taxpayers selected for audit are determined based on the level of risk. The higher the level of risk, the greater the possibility for taxpayers to be audited. CRM itself is a process to identify the assessment, rating, and treatment of compliance risk systematically to carry out its tax obligations correctly and appropriately.

Netherlands

Tax authorities apply conduct tax audits called the *Horizontal Monitoring System* (HMS). HMS is a supervisory strategy that has the following criteria:

- a. In discretion-based supervision, tax enforcement is carried out flexibly but within certain limits
- b. Tax Cooperation is based on an agreement. The decision to carry out an audit is based on an agreement between the tax authority and the taxpayer through an intimate mutual understanding.
- c. Additional Rules in Published Guidance, where the tax authorities (Netherlands Tax and Customs Administration/NTCA) prioritise communication to build trust through transparency.

The rights and obligations under regulations remain in effect, which provides room for NTCA to enforce applicable laws (such as sanctions), in addition to flexibility and agreement with taxpayers.

The HMS approach is used to find out deviations made by a company, such as determining the distribution of shares that are not fair in an entity, through statistical mechanisms. This approach then becomes the basis for creating an algorithm for the system that will select the taxpayers being audited. The system does not automatically state that the company has committed a violation but states that the company is planning something. After showing unusual practices, the system will select Taxpayers to be audited based on the specified criteria. This condition becomes the basis for conducting a tax audit every five years.

It is essential to discuss the risk management approach before determining the audit instrument. It is done because the examination results relate to financial risks, the state's financial interests, and various political and social impacts. In principle, there is no time limit for completing the examination, but the duration varies in each case. The decision of whether the Dutch Tax Authority (DTA) will conduct a tax audit is based on various factors, such as attitudes, the behaviour of taxpayers, and information obtained through company interviews, samples, or data from third parties. After that, a risk analysis was carried out by DTA based on these factors. Therefore, tax audits are usually only carried out if there are indications of non-compliance or fraud. The investigative methods used include data comparison, statistical analysis, random examination, and accounting.

Comparative Analysis

The Indonesian Tax Authority does not yet have a specific approach to tax audits and a systematic mechanism for selecting taxpayers to audit. Referring to the implementation of the tax audit policy in the Netherlands, which has succeeded in growing taxpayers' trust in the tax authorities, Indonesia can adopt a tax audit system and mechanism in the Netherlands.

7. Policy achievement variable (policy achievements)

This variable is a component to identify the achievements that have been obtained in policy implementation, taking into account aspects of the perceived impact on policy objectives and the level of change that has been achieved. The results of this identification are compared with the previously set policy objectives. As previously explained, the tax audit policy aims to increase taxpayer compliance and trust the tax authorities through various components. If the implemented policy has not achieved the stated objectives, it is necessary to evaluate it.

E. CONCLUSION

Some of the problems found in implementing tax audit policies in Indonesia are that there is no legal certainty and clarity of information and treatment of taxpayers. In addition, there is no equal treatment in determining which taxpayers will be audited, where there are still taxpayers in the same taxation condition receiving a different treatment. Moreover, compliant taxpayers get tax sanctions in fines or interest more significantly than non-compliant taxpayers. This is certainly not in line with the principle of justice, which pays attention to the determination of sanctions, effectiveness, and significance. It results in public distrust of the government due to the low level of accountability in implementing its tax audit policies. The existence of the principle of justice that is not fulfilled also causes a decrease in taxpayer confidence in the government, making the tax legitimacy low.

After-tax amnesty and the ongoing implementation of the AEOI, DGT needs to transform the audit system. Later it can be used to compare data reported by taxpayers with data belonging to the tax author and as data from other parties digitally as is done by the authorities. This process will make selecting criteria for audited taxpayers more precise and transparent. Through this mechanism, the audits carried out by the tax authorities will only be aimed at taxpayers who do not fulfil their tax obligations correctly. This fundamental change is one of the crucial factors in increasing tax legitimacy from the taxpayer's perspective, increasing taxpayer compliance in the future.

Some recommendations to become input for the tax authorities so that the implementation of the transformation of implementation policies can produce an effective and transparent audit system, among others:

1. The Indonesian Tax Authority (DGT) can adopt the Dutch HMS approach in setting standards and policy targets to carry out comprehensive supervision. In addition, studying the system algorithm used to select and determine taxpayers to be audited based on the taxpayer's compliance history.
2. DGT, through the Ministry of Finance, can adopt a policy of the Dutch Government that requires banking institutions to have a *Tax Compliance Management*. The Ministry of Finance can work closely with Bank Indonesia as the National State Bank to implement a policy that requires every bank in Indonesia to have a *Tax Compliance Management* to audit all of its customers as the Dutch government does. This policy can facilitate the audit process carried out by the tax authorities and provide support for the limited number of DGT employees, especially in the field of audits.
3. When carrying out the policy transformation process, DGT needs to pay attention to 4 elements: man, money, machine, and method. The tax authorities need to update the system regarding devices and techniques, including optimising the Law Enforcement Administration System Application (Sigakum) and its database. The tax audit process is more effective and efficient.

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