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THE INDONESIAN TAX AMNESTY AND COMPLIANCE

FEBRUARY LEONARDO ZULKARNAIN

ABSTRACT

This study focused on the Indonesian tax amnesty which had been completed in 2017. The study's primary objective was to investigate the perceptions of participants regarding the benefit of the tax amnesty for their tax compliance. This research draws primarily on responsive regulation theory and motivational postures to provide an understanding of the nature of non-compliance and the adoption of tax amnesty as a persuasive approach to address the problem. In addition to document reviews, this study used face-to-face and semi-structured interviews as the data collection method. Results suggest that there were various reasons for participants registering in the tax amnesty, one of which was to avoid penalty. Participants' postures also varied, ranging from accommodating to defiant. Corresponding to these postures, enforcement should follow the amnesty as persuasion in isolation may not be able to promote tax compliance. Research findings also indicate that taxpayers may consider tax evasion when there is an expectation of a future tax amnesty. Overall, the Indonesian tax amnesty did not necessarily lead to enhanced revenue after the amnesty period.

I INTRODUCTION

In developing countries, tax administration faces significant challenges in mobilising national revenue. The indicator commonly used to gauge a country's revenue collection ability is the proportion of tax revenue to the country's Gross Domestic Product (GDP), known as tax-to-GDP ratio. As a member of the G20, Indonesia, encounters issues of low tax revenue. According to the OECD,¹ in 2015, the Indonesian tax-to-GDP ratio was 11.8%. The OECD correlates the low tax-to-GDP ratio in Indonesia with low tax compliance and narrow tax bases.² While the GDP grows, the tax collection lags behind. Concerning the narrow bases, the OECD reported that out of 44 million Indonesians who should pay tax, only 27 million are registered and less than 40% of those pay the full amount.³ Based on these figures, there are at least 17 million non-compliant taxpayers who may require persuasion to enter the tax system.

In an effort to raise tax revenue and improve future tax compliance, the Indonesian government announced a tax amnesty program by introducing Tax Amnesty Law No. 11 of 2016.⁴ The Indonesian 2016 tax amnesty was a comprehensive program which covered a wide range of forgiveness, not only relieving penalties and interest but also providing freedom from audit and prosecution for the previous fiscal years.⁵ In addition to encouraging taxpayers to disclose their undeclared domestic assets and income, the Indonesian tax amnesty incentivised repatriation of capital from overseas (i.e., British Virgin Islands, Singapore). This incentive could be related to the exposure in April 2016 of the Panama Papers which implicated a number of Indonesian businesspeople and public officials.⁶ Correspondingly, the Indonesian Minister of Finance publicly announced that the value of Indonesian assets hidden overseas was no less than 3,250 trillion IDR (equivalent to US \$250 billion).⁷ These overseas assets were beyond the Indonesian authority's jurisdiction. Therefore, persuasion is required. When the tax

¹ The Organisation for Economic Co-operation and Development, Revenue Statistics in Asian Countries: Trends in Indonesia, Japan, Kazakhstan, Korea, Malaysia, the Philippines and Singapore (Report, July 2017).

² Ibid.

³ Ibid.

⁴ Natasha Hamilton-Hart and Günther G. Schulze, 'Taxing Times in Indonesia: The Challenge of Restoring Competitiveness and the Search for Fiscal Space' (2016) 52(3) Bulletin of Indonesian Economic Studies 265, 295 <<https://www.tandfonline.com/doi/full/10.1080/00074918.2016.1249263>> .

⁵ Indonesian Tax Amnesty Law 11 2016.

⁶ International Consortium of Investigative Journalists, 'Offshore Leaks Database', ICJI (online, November 2018) <<https://offshoreleaks.icij.org/search?c=IDN>>.

⁷ Jefriando Maikel, 'Sri Mulyani: Kekayaan WNI di Luar Negeri Rp 3.250 T, Rp 2.600 T di Singapura', Detik (online, 20 September 2016) <<https://finance.detik.com/berita-ekonomi-bisnis/d-3302486/sri-mulyani-kekayaan-wni-di-luar-negeri-rp-3250-t-rp-2600-t-di-singapura>>.

amnesty was introduced, the Directorate General of Taxation (DGT) had not regulated country-by-country reports. The regulation was established by the end of 2016 through Ministerial Regulation 213/2016 nearly six months after the introduction of the tax amnesty.

During its first three months, the amnesty program resulted in IDR 3,500 trillion (equivalent to US \$280 billion) of asset and income declaration, from more than 400,000 taxpayers, and the levy collected from the amnesty was IDR 90 trillion (approximately US \$7.2 billion).⁸ Indonesia's tax amnesty program ended in March 2017, with more than 800,000 participants declaring their assets and income worth approximately US \$360 billion.⁹ As a result, The Economist¹⁰ and Oxford Business Group¹¹ observed that the entire program was successful in terms of the revenue raised. However, the accomplishment of a tax amnesty should not be limited to the declaration of assets and income. Instead, the participants' compliance was expected to increase as their assets had now been exposed to the tax authority¹² which might hold them accountable for income generated from those assets.¹³ Other research suggests that the parameters of the Indonesian tax amnesty's success should be more than about numbers and evaluation should be made against how broader objectives could be achieved after the program had ended.¹⁴ These objectives should include, among other things, improving future compliance, revitalising Indonesia's tax administration, reforming the tax law, and improving tax education.¹⁵

Tax amnesty, also known as voluntary disclosure program, is a government policy to bring non-compliant taxpayers into the tax system in exchange for an elimination of their tax liability

⁸ The Organisation for Economic Co-operation and Development, 'OECD Economic Surveys: Indonesia' (Report, October 2016) 25.

⁹ Hidayat Setiaji, 'Late rush to join Indonesia tax amnesty after \$360 billion declared', *Reuters* (online, 31 March 2017) <<https://www.reuters.com/article/us-indonesia-economy-tax/late-rush-to-join-indonesia-tax-amnesty-after-360-billion-declared-idUSKBN1720VJ>>.

¹⁰ The Economist, 'Indonesia's tax amnesty passes its deadline', *The Economist* (online, 30 March 2017) <<https://www.economist.com/finance-and-economics/2017/03/30/indonesias-tax-amnesty-passes-its-deadline>>.

¹¹ Oxford Business Group, 'Trillions declared through Indonesia's tax amnesty programme', *Oxford Business Group* (online, 2018) <<https://oxfordbusinessgroup.com/analysis/taxing-questions-amnesty-programme-trigger-step-change-tax-compliance>>.

¹² Adrian Sawyer, 'Targeting Amnesties at Ingrained Evasion – A New Zealand Initiative Warranting Wider Consideration' (2005) 1(3) *Journal of the Australian Tax Teachers Association* 100, 135 <<https://heinonline.org/HOL/LandingPage?handle=hein.journals/jautta1&div=41&id=&page=>>.

¹³ Ibid.

¹⁴ Santi H. Paramitha, 'Indonesia's Tax Amnesty: A Reflection' (2017) 79 *RSiS Nanyang Technological University* <<https://dr.ntu.edu.sg/handle/10220/42342>>.

¹⁵ Ibid.

(including penalties and interest) and freedom from prosecution.¹⁶ By allowing non-compliant taxpayers to participate in the tax amnesty and declare their assets and income, the authority expects sustained revenue from them while maintaining compliance from existing taxpayers.¹⁷ Taxpayers' attitudes towards the tax amnesty program may determine the ability of the program to influence the short-term (raising quick revenue) as well as the future aspects (generating tax compliance).¹⁸

The primary objective of this research is to investigate the perceptions of tax amnesty participants regarding the 2016 Indonesian tax amnesty. Individual participants might interpret the Indonesian tax amnesty differently as they derive meaning from their own experience and standpoints. Research suggests that it is important to investigate why non-compliant taxpayers participate voluntarily in the amnesty program despite not complying previously in the presence of tax enforcement.¹⁹ To achieve that objective, this research attempts to address the following questions:

- Why did taxpayers participate in the tax amnesty program?
- How did taxpayers perceive the tax amnesty in general?

Section 2 of this paper presents the literature review. It begins with explaining the definition of tax amnesty, as well as its role in the tax compliance. In this section, motivational postures are explained. The controversies surrounding tax amnesties are also discussed. Section 3 describes the method used in the study and presents the reasons for its selection. In section 4, results are categorised, interpreted and compared to the literature. Section 5 concludes the results, and section 6 highlights the limitations and contributions of this research.

II LITERATURE REVIEW

Tax amnesty is a temporary offer by the government which forgives penalties for corporations and individuals, who voluntarily disclose their improper payment of tax pertaining to undeclared assets and income, by requiring them to pay only the specified amount to correct

¹⁶ Katherine Baer and Eric Le Borgne, *Tax amnesties: Theory, trends, and some alternatives* (International Monetary Fund, 2008).

¹⁷ The Organisation for Economic Co-operation and Development, *Update on Voluntary Disclosure Programmes: A Pathway to Tax Compliance* (Report, August 2015) <<https://doi.org/10.1787/460c9ea4-en>>.

¹⁸ Valerie Braithwaite, 'Closing the gap between regulation and the community' in Peter Drahos (ed), *Regulatory Theory: Foundations and Applications* (Australian National University Press, 2017) 25, 41 <<https://library.oapen.org/bitstream/handle/20.500.12657/31596/626829.pdf?sequen#page=61>>.

¹⁹ Hamilton-Hart and Schulze (n 4).

1 their tax obligation.²⁰ In general, the amnesty provides non-compliant taxpayers with the opportunity to pay back-taxes on undisclosed income, without fear of penalties or prosecution.²¹ The OECD prefers to promote it as a voluntary disclosure program and defines it as an opportunity offered by the tax authority to allow non-compliant taxpayers to regularise their tax affairs under specified terms.²²

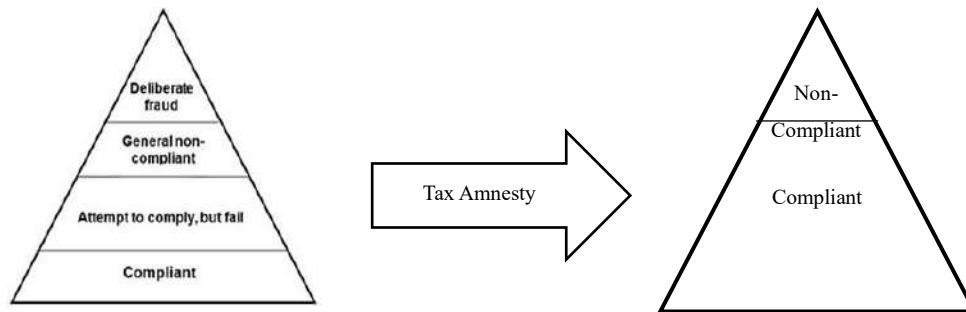
1 Given its nature as a voluntary program, a tax amnesty relies on trust and requires transparency from non-compliant taxpayers to declare their unreported assets and income. In this regard, a tax amnesty departs from the command-and-control approach that is part of the traditional view of the tax authority.²³ The role of a tax amnesty to persuade non-compliant taxpayers can be demonstrated by two pyramids, as shown in Figure 1 below:

²⁰ Maryann Richardson and Adrian J. Sawyer, 'A taxonomy of the tax compliance literature: further findings, problems and prospects' (2001) 16(2) *Australian Taxation Forum* 137; Craig M. Boise, 'Breaking Open Offshore Piggybanks: Deferral and the Utility of Amnesty' (2006) 14(3) *George Mason Law Review* 667, 723; James Alm, Jorge Martinez-Vazquez and Sally Wallace, 'Do tax amnesties work? The revenue effects of tax amnesties during the transition in the Russian Federation' (2009) 39(2) *Economic Analysis & Policy*; Leandra Lederman, 'The Use of Voluntary Disclosure Initiatives in the Battle Against Offshore Tax Evasion' (2012) 57 *Villanova Law Review* 499; John L. Mikesell and Justin M. Ross, 'Fast money? The contribution of state tax amnesties to public revenue systems' (2012) 65(3) *National Tax Journal* 529, 562; Ralph C. Bayer, Harald Oberhofer and Hannes Winner, 'The occurrence of tax amnesties: Theory and evidence' (2015) 125 *Journal of Public Economics* 70, 82.

²¹ Baer and Le Borgne (n 16).

²² The OECD (n 17).

²³ Valerie Braithwaite, 'Responsive regulation and taxation: Introduction' (2007) 29(1) *Law & Policy* 3, 10 <<https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1467-9930.2007.00242.x>>.

FIGURE 1 : THE ATO COMPLIANCE PYRAMID AND TAX AMNESTY²⁴

The left pyramid represents the ATO Compliance Pyramid²⁵ while the pyramid on the right is adapted from the OECD pyramid.²⁶ The left pyramid classifies taxpayers into four compliance categories. The base of the pyramid represents compliant taxpayers who constitute a large proportion of the pyramid. These compliant taxpayers regularly report their income and assets in their tax return and pay tax when it is due. However, on top of the pyramid, there is a small minority of deliberate evaders who persistently refuse to comply with the tax rules. These tax evaders are risk-takers and have confidence the tax authority will not discover their evasion.

In addition to the above categories, there are taxpayers who remain in the middle of the pyramid. These taxpayers may need attention and persuasion to comply, depending on their circumstances.²⁷ Such circumstances may include uncertainty, lack of information, and different interpretations of tax law. For example, due to a lack of updated information, taxpayers may fail to pay tax on time. In addition, out of negligence, they may not pay tax according to a newly updated tax regulation. As a consequence, sanctions accumulate and this situation may put taxpayers at risk of insolvency. For that reason, these taxpayers may require a second chance to correct their tax affairs by disclosing their past non-compliance and receive

²⁴ Valerie Braithwaite and John Braithwaite, 'An evolving compliance model for tax enforcement' in Neal Shover and John Paul Wright (eds), *Crimes of privilege: Readings in white-collar crime* (Oxford University Press, 2001); Valerie Braithwaite, 'A New Approach to Tax Compliance' in Valerie Braithwaite (ed), *Taxing Democracy* (Ashgate, 2002) 1, 11; Braithwaite (n 23); The OECD (n 17).

²⁵ Braithwaite (n 23); Braithwaite and Braithwaite (n 24).

²⁶ The OECD (n 17).

²⁷ Judith Freedman, 'Responsive regulation, risk, and rules: Applying the theory to tax practice' (2011) 44(3) *University of British Columbia Law Review* 627
<<https://heinonline.org/HOL/LandingPage?handle=hein.journals/ubclr44&div=33&id=&page=>>.

1 pardon in return.²⁸ As these taxpayers become compliant, the left pyramid composition is expected to be altered to resemble the pyramid on the right.

In general, all types of taxpayers are eligible for a tax amnesty. However, taxpayers in the middle of the left pyramid have a higher likelihood of participation because they are not deliberately non-compliant but have had sanctions imposed owing to past mistakes. Post-amnesty, a tax authority may efficiently allocate its limited resources to address individuals in the top of the pyramid.

1 There has been ongoing debates about whether to opt for deterrence or persuasion in improving tax compliance, and thus tax amnesty is not free of criticism. While there are proponents of tax amnesties, there are also opponents who are sceptical about the ability of a tax amnesty to generate future revenue.²⁹ There is mixed evidence related to the outcomes of tax amnesties. Using various indicators (i.e., reduction in tax arrears, revenue collection), previous research considered tax amnesties provided by Argentina in 1995, India in 1997, and Ireland in 1988 as successful.³⁰ Conversely, Turkey's experience, and other Argentinian tax amnesties between 1997 and 2004 have not accomplished the desired results.³¹ In a similar manner, referring to the Russian experience, the impact of tax amnesties on revenue was negligible.³² Furthermore, numerous studies of tax revenue collections suggest that tax collections following amnesty periods tend to decrease in the long-run.³³ In this regard, a tax amnesty may not be effective in turning non-compliant taxpayers into compliant taxpayers.³⁴ With regard to the persistent non-compliance post-amnesty, non-compliant taxpayers might participate in an amnesty merely to take advantage of the program to clear their outstanding tax liabilities, rather than becoming genuinely compliant.³⁵ Other research indicates that the desire to avoid a penalty is more influential than the intrinsic motives (e.g., tax morale) in determining participation in a tax

²⁸ The OECD (n 17).

²⁹ James Alm and Jorge Martinez-Vazquez, 'Institutions, paradigms, and tax evasion in developing and transition countries' in James Alm and Jorge Martinez-Vazquez (eds), *Public Finance in Developing and Transitional Countries* (Edward Elgar, 2003) 146, 178.

³⁰ Baer and Le Borgne (n 16).

³¹ Ibid.

³² Alm, Vazquez and Wallace (n 20).

³³ James Alm, Michael McKee and William Beck, 'Amazing grace: Tax amnesties and compliance' (1990) *National Tax Journal*, 23, 37; James Alm and William Beck, 'Tax amnesties and compliance in the long run: A time series analysis' (1993) *National Tax Journal* 53, 60; Arindam Das-Gupta and Dilip Mookherjee, 'Tax Amnesties in India: An Empirical Evaluation' (1995) Center for Institutional Reform and the Informal Sector.

³⁴ Ronald C. Fisher, John H. Goddeeris and James C. Young, 'Participation in tax amnesties: The individual income tax' (1989) 42(1) *National Tax Journal* 15, 27; Das-Gupta and Mookherjee (n 33).

³⁵ Fisher, Goddeeris and Young (n 34).

1 amnesty.³⁶ In this respect, the overall effect of an amnesty may not be positive if evaluated in all stages (before, during and after the amnesty).³⁷ Despite doubts of its efficacy, however, a tax amnesty may serve as a cooperative strategy for the tax authority before an escalation to more punitive measures.³⁸

1 A tax amnesty is ordinarily advertised as the last opportunity for non-compliant taxpayers prior
1 to the implementation of stricter enforcement measures to deter tax evasion.³⁹ Given various
1 circumstances (e.g., budget deficit, change of regime, among others), a single amnesty is rarely
1 offered.⁴⁰ A tax authority is likely to repeat tax amnesties when its primary objective is simply
1 to gain immediate revenue⁴¹ which may negatively affect taxpayers' compliance.⁴² When
1 amnesties have a high occurrence, they become less likely to generate substantial revenue
1 because taxpayers may defer reporting their assets and income with the expectation that a future
12 tax amnesty will forgive their offences.⁴³ In addition, repeated tax amnesties signal the
1 weakness of tax administration in enforcing tax effectively.⁴⁴ The Philippines experience
1 provides a relevant example of how tax enforcement failed to materialise post-amnesty on
1 account of weak administration.⁴⁵ For that reason, the OECD discourages repeated tax
1 amnesties because running a series of similar programs risks damaging the program's
1 credibility.⁴⁶

³⁶ Jonathan Farrar and Cass Hausserman, 'An exploratory investigation of extrinsic and intrinsic motivations in tax amnesty decision-making' (2016) 2 *Journal of Tax Administration* <https://pdxscholar.library.pdx.edu/busadmin_fac/47/>.

³⁷ Sawyer (n 12).

³⁸ John Braithwaite, 'Large Business and the Compliance Model' in Valerie Braithwaite (ed), *Taxing Democracy* (Ashgate, 2002) 177, 202.

³⁹ Mikesell and Ross (n 20).

⁴⁰ Jonas Jensen and Florian Wöhlbier, 'Improving tax governance in EU Member States: Criteria for successful policies' (2012) 114 *Publications Office of the European Union* <https://ec.europa.eu/economy_finance/publications/occasional_paper/2012/op114_en.htm>.

⁴¹ Bayer, Oberhofer and Winner (n 20).

⁴² James Alm and Benno Torgler, 'Do ethics matter? Tax compliance and morality' (2011) 101(4) *Journal of Business Ethics* 635, 651 <<https://doi.org/10.1007/s10551-011-0761-9>>.

⁴³ Baer and Le Borgne (n 16); J. M. Ross, 'Forgiveness is divine, but is it good tax policy' (2012) *School of Public and Environmental Affairs Insights*.

⁴⁴ Richard M. Bird, 'Administrative dimensions of tax reform' (2004) 10(3) *Asia-Pacific tax bulletin* 134, 150.

⁴⁵ Baer and Le Borgne (n 16).

⁴⁶ The OECD (n 17).

II METHOD

A DOCUMENT REVIEWS

Preliminary reviews have been conducted on several documents including Indonesian tax amnesty law 11/2016, DGT's 2015, 2016 and 2017 annual reports, the OECD Economic Surveys on Indonesia 2016, and the Ministerial Regulation No. 118/2016. These documents provide background information related to the Indonesian tax amnesty. For example, the DGT's annual reports provide information about the amount of revenue generated through tax amnesty and the number of taxpayers registered in the tax system. Additional reviews were carried out on the OECD's reports related to revenue statistics in Asia and the Pacific. National and foreign journalist releases were also taken into consideration in this study.

A SEMI-STRUCTURED INTERVIEWS

This method allows the researcher to gather in-depth information from participants about their experience and perceptions towards the tax amnesty. This research involved a wide range of participants, from individual to corporate taxpayers. Individual participants were around 60 percent of the total participants. Their backgrounds varied, including, among others, managers, businessmen and accountants. Corporate participants included producers, traders and service providers. All participants were purposefully selected, and their voluntary participation was emphasised. Prior to the interview, participants were sent information related to the purpose of the interview and interview questions by email or mobile application (i.e., Whatsapp). After receiving the information, none of these participants decided to withdraw from their participation in the interview. To accommodate the participants' schedules, interviews took place in various locations, including restaurants, coffee shops, residential building lobbies, and participants' offices. Each participant received a letter of consent and was required to sign it after the interview. To capture the information accurately, interviews were recorded with the consent of participants.⁴⁷ Confidentiality was assured to encourage participants to express their ideas freely while being recorded. After obtaining information through field notes and interview recording, the data were prepared for analysis.⁴⁸ The data preparation included

⁴⁷ Uma Sekaran and Roger Bougie, *Research methods for business: A skill building approach* (Wiley, 7th ed, 2016).

⁴⁸ John W. Creswell, *Research design: Qualitative, quantitative, and mixed methods approaches* (Sage, 2nd ed, 2003).

1 transcribing the interviews and organising field notes. Most of the interviews were conducted in the Indonesian language, and their transcripts were thus translated into English. The transcripts were then sorted based on participants' categories (i.e., individual, corporate). Responses from participants to each proposed question were segregated to help the researcher identify important information, the general ideas and the overall impression captured from participants. Participant responses regarding specific issues were compared with others' information to identify similar themes. After generating themes, patterns were identified and the meaning of the overall information obtained during the interview was then interpreted.⁴⁹ Literature, including previous research, is used to support the findings from this research.

III RESULT AND DISCUSSION

There were 25 participants included in this study, ranging from corporate to individual taxpayers. The background of participants varied, including, among others, those from a state-owned company, foreign investment companies, a wholesaler, a national distributor, a high net-worth individual, and a fund manager. Almost all participants were those who had registered in the tax amnesty. In this study, each participant was assigned a code (R) followed with a number according to the sequence of interviews. For example, the first participant was designated as R1 while the last one was identified as R25.

A PARTICIPANTS' VIEWS OF THE TAX AMNESTY

1 Most participants considered the tax amnesty as a good program. It provided them with opportunities to rectify and learn from their past mistakes. Taxpayers' resentment towards the tax authority can be part of their 'deliberate' mistakes. With regard to resentments, R6 added: *"In the past, we often heard the idiomatic expression: "Fishing in own pond"yeah, we have paid taxes but we are continuously under enforcement.....actually, we are aware of others who also have potentials. Why only us?"*. Corresponding to the literature, consistent punishment may increase taxpayers' resentments and drive taxpayers to shift from capitulation to defiant postures.⁵⁰

A number of participants expressed their views that this tax amnesty had not accomplished its initial objectives to repatriate assets from overseas and to bring unregistered individuals and

⁴⁹ Ibid.

⁵⁰ Valerie Braithwaite, 'Dancing with tax authorities: Motivational postures and non-compliant actions' in Valerie Braithwaite (ed), *Taxing Democracy* (Ashgate, 2002) 15, 39.

corporations into the tax system. For instance, a country manager (R4) stated as follows: “*I heard other amnesty participants still expressed their doubt to disclose their overseas assets.....I have the impression that big fishes did not participate.*” The tax amnesty was at risk of exploitation, according to this participant’s view.

R14 expressed concerns that the tax amnesty could be exploited by those who hide their assets overseas because the tax amnesty allowed participants to merely disclose their overseas assets without repatriating them. Similar views were shared by other participants such as R6, R9, R10, R15, R19, R24, and R25. Once amnesty registrants were admitted into the system, they were exempt from inquiries and investigations. The actual number of their overseas assets remained obscure to the Indonesian tax authority. Previous research has highlighted the limited capacity of the Indonesian tax authority given lack of resources and limited third-party information.⁵¹ When this tax amnesty was introduced, Indonesia had not implemented the Automatic Exchange of Information (AEOI) with partner countries.

Lack of preparation in the tax amnesty program became an issue to participants. R16 explained that the tax amnesty was hastily prepared and lacked education for taxpayers prior to its introduction. R25 added that: “*Sometimes when Indonesian tax authorities introduced tax rules, they themselves were not ready to implement yet but the rules were underway anyway....we became confused.*”

Due to a limited time span between legislation and implementation, R12 stated that there were individuals suspicious of this program and regarded it as a ‘trap’. Numerous participants were aware that there were a lot of taxpayers who did not participate in this program due to their scepticism and wait-and-see attitudes. This view reflects a lack of trust in the tax authority, which negatively affects tax compliance. Referring to the ‘slippery slope’ framework,⁵² voluntary tax compliance requires trust by taxpayers. The higher the trust in tax authorities, the greater the voluntary compliance.⁵³ The tax amnesty law was introduced in a short period of time, being ratified on the 1st of July 2016 and becoming effective immediately. This provided little time for potential participants to learn about the program. Apart from that, the level of the

⁵¹ Eric Le Borgne et al, ‘Tax Administration Reform and Fiscal Adjustment: The Case of Indonesia (2001-07)’ (2008) 129(8) *IMF Working Paper* <<https://ssrn.com/abstract=1153748>>.

⁵² Erich Kirchler, Erik Hoelzl and Ingrid Wahl, ‘Enforced versus voluntary tax compliance: The “slippery slope” framework’ (2008) 29(2) *Journal of Economic psychology* 210, 225 <<https://doi.org/10.1016/j.joep.2007.05.004>>.

⁵³ Ibid.

Indonesian government effectiveness index at the time of the tax amnesty was 50.⁵⁴ This index reflected the government credibility at large. Nevertheless, this index steadily improved post amnesty.

B REASONS FOR PARTICIPATION IN THE TAX AMNESTY

15 In general, interviewees participated in the tax amnesty in order to settle tax issues, including unreported assets and income, and to avoid penalties. There were various explanations revealed by participants related to the above reasons. For instance, R1 described their motives were to correct their past mistakes and focus on their future business activities. Further, they explained that these past mistakes were also caused by their misinterpretations of tax rules. With regard to additional sources of participants' past mistakes, R20 encountered difficulties in understanding tax regulations while R21 had miscalculations and failed to update to new tax regulations. Internal company issues could also contribute to generating these mistakes. For example, R3 had a high employee turnover, including its tax staff, which affected the consistency and accuracy of tax reporting. Participation in a tax amnesty was not only to rectify past mistakes, but also to become compliant post tax amnesty. This reason was disclosed by other participants R21, R23, and R24. In reference to the compliance pyramid,⁵⁵ the above participants can be categorised as those adopting a capitulation posture. They did not always succeed in complying and might have sometimes failed. As a result, administrative penalties may accumulate out of their negligence. Therefore, they utilised the tax amnesty as a moment to rectify their past mistakes. Post amnesty, there is a likelihood for them to become compliant taxpayers. In line with the types of actions for various compliance levels, those categorised as compliant should receive more education and enhanced services.⁵⁶ To put it another way, the tax authority's intervention should be de-escalated when tax compliance is forthcoming.⁵⁷

1 In addition to avoiding penalties, lower rates in this tax amnesty made this program highly attractive. R5 disclosed that he did not want to miss the opportunity to pay tax with reduced fees. To participate in the tax amnesty, participants were required to pay a concessional levy which was much lower than the normal tax rate (up to 30%).

⁵⁴ World Bank, *Governance Indicators* (Report, 2016) <<https://databank.worldbank.org/Governance-Indicators-2016/id/9203dff8>>.

⁵⁵ Braithwaite (n 24).

⁵⁶ Braithwaite (n 23).

⁵⁷ Braithwaite (n 50).

3 Eluding a tax audit seemed to be another determinant for tax amnesty registrants. For instance, R6 underwent tax audit on account of applying for a tax refund. It was regulated under the ministerial regulation, article 23 of PMK 118/2016 that the tax audit could be terminated for taxpayers who decided to participate in the tax amnesty. Apart from terminating the tax audit, evading potential audit for previous fiscal years (up to 2015) was also a motive for tax amnesty participants, as described by R8, R9, R16, R17, and R25. In this regard, these participants exploited the guarantee of tax audit exemption for tax amnesty registrants. More explanations were provided by R9, who had finished tax audits for consecutive years. This participant explained that their company did not avoid penalties but wanted to minimise the probability of being tax audited for fiscal years that had not yet been audited.

3 Taxpayers with tax disputes were also attracted by this tax amnesty program. R19 having ongoing tax disputes with the tax authority decided to withdraw from these disputes in order to participate in the tax amnesty. This participant felt that tax disputes could be time-consuming. The tax amnesty enabled this company to resolve tax issues and avoid penalties. R9 also shared this view as they had disputes resulting from tax audits and opted for participating in the tax amnesty to settle their issues.

2 A tax amnesty relies on persuasion and has a forward-looking perspective by offering pardons for participants' past mistakes.⁵⁸ For those that have accumulated penalties, and/or are engaging in tax audits or disputes, this program becomes their opportunity to resolve those issues. A number of participants had previous experience with audits and disputes. Such an experience might have been found to be inconvenient, and they wanted to avoid this through the tax amnesty.

C PARTICIPANTS' FEELINGS AFTER PARTICIPATION

There were mixed feelings among participants post registering in the amnesty program. Most felt relieved after being admitted in the program. However, there were participants who felt indifferent as if nothing changed. Even a number of participants felt dubious, as disclosed by R3, R4, R12, R13, R20 and R22, that the program was a trap for them. They suspected that after reporting their assets, they might become the main focus of enforcement. As previously stated by R6, this situation resembled 'fishing in own pond'. R14 considered such an activity

⁵⁸ Baer and Le Borgne (n 16).

inappropriate due to its strong focus on compliant taxpayers. As a result, it could affect their perception of equality because these participants were aware of a large number of noncompliant individuals beyond the reach of the tax authority.

D FRAUD RELATED TO THE PARTICIPATION IN THE TAX AMNESTY

There were taxpayers who forged their documents related to assets and financial transactions in order to participate in the tax amnesty. These activities were directly carried out by R4 and R6 while R17 and R18 stated that they witnessed others doing so. R4 used fake data on the grounds that their transactions had not been properly recorded in the past. A high volume of registrations and a limited number of tax officers with specified timeframes could also be contributing factors to these episodes of misconduct.

A number of participants argued that their mistakes in tax reporting were out of negligence. In this regard, negligence did not necessarily mean that participants failed to update to tax regulations. There was a participant who stated that their negligence was due to dissatisfaction with the tax authority. Furthermore, there were participants, including R3, R4, R10, R11, R13, R18, and R22, who disclosed that they deliberately avoided paying taxes prior to the tax amnesty program. R13 explicitly asserted: *“Honesty, as an entrepreneur, as a human, if I can lie why not?”*. In a similar manner, R3 expressed this view: *“In the past, I thought I would not pay tax in accordance with (regulations)...purely it was deliberate avoidance.”*. In relation to the above statements, there is little guarantee that the tax amnesty would be able to persuade taxpayers to become compliant. Correspondingly, R6 suggested that: *“Now assets have been reported, along with related income. But, in my view, it will not.....will not make taxpayers compliant.”* R24 added: *“Whether the tax amnesty is able to turn Indonesian taxpayers to become compliant in general, I do not think so...there were many taxpayers who still underreported.”*

These findings reveal the existence of low tax morale among taxpayers. This situation is in line with findings of a previous study which indicated that tax evasion is prevalent in nearly all countries.⁵⁹ However, ethical dimensions may differ among individuals,⁶⁰ and thus the extent to which fraud has been committed requires investigation.

⁵⁹ Alm and Torgler (n 42) 635.

⁶⁰ Ibid.

1 In relation to responsive regulation,⁶¹ persuasion or punishment alone might not be sufficient
1 to achieve compliance. Authors of the previous study⁶² further explained that a strategy of
persuasion is more suitable to regulatees who are motivated by a sense of responsibility.
However, they noticed that such persuasion may also be vulnerable to exploitation. Therefore,
1 punishment may become necessary to address this situation. In light of this dynamic, tax
enforcement is required to anticipate participants who seek to abuse the terms of the tax
1 amnesty.⁶³ Enforcement can also be used to deter those who may be tempted to disengage from
the tax system and return to non-compliance.⁶⁴

E RELATIONSHIP BETWEEN TAX EVASION AND FUTURE TAX AMNESTY

1 A number of participants, such as R7, R9, R11, R12, R15, and R19 indicated that when
1 taxpayers are in expectation of a future tax amnesty, they may prepare for tax evasion. R19
added that it is understandable that taxpayers search for loopholes. Previous research suggests
that when amnesties have a high occurrence, they become less likely to generate substantial
1 revenue because taxpayers may defer reporting their assets and income with the expectation
1 that a future tax amnesty will forgive their offences.⁶⁵ Multiple tax amnesties in a short interval
tend to decrease tax compliance over time.⁶⁶ In addition, recurring tax amnesties indicate a
6 weakness in the ability of the tax administration to enforce tax effectively.⁶⁷ Therefore, frequent
tax amnesties were discouraged as they risk damaging the program's credibility.⁶⁸ As an
7 alternative, research suggests that participants who had already registered in the previous tax
amnesty program be barred from participating in the subsequent identical tax amnesty.⁶⁹ This
prohibition would allow the subsequent tax amnesty program to focus on those unregistered

⁶¹ Ian Ayres and John Braithwaite, *Responsive Regulation: Transcending the Deregulation Debate* (Oxford University Press, 1992).

⁶² Ibid.

⁶³ James C. Young, 'Factors Associated With Noncompliance: Evidence from the Michigan Tax Amnesty Program' (1994) 16(2) *Journal of the American Taxation Association*.

⁶⁴ The OECD (n 17).

⁶⁵ Alm, McKee and Beck, (n33); Baer and Le Borgne, (n16); Das-Gupta and Mookherjee, (n33); Benno Torgler, 'Tax morale: Theory and empirical analysis of tax compliance' (PhD Thesis, University of Basel, 2003).

⁶⁶ Alm, Vazquez and Wallace, (n20); Hari Sharan Luitel and Russell R. Sobel, 'The revenue impact of repeated tax amnesties' (2007) 27(3) *Public Budgeting & Finance* 19; Mikesell and Ross (n 20); Torgler (n 64).

⁶⁷ Bird (n 44).

⁶⁸ The OECD (n 17).

⁶⁹ James Alm and Jay A. Soled, 'Tax amnesties, recidivism, and the need for reform' (2021) 74(4) *The Tax Lawyer* 659, 690 <<https://www.jstor.org/stable/27305808>>.

and bring them into the tax system rather than targeting previous participants. Moreover, the tax amnesty was largely promoted as a one-off opportunity by the Indonesian government.⁷⁰

F TAXPAYERS' EXPECTATIONS POST TAX AMNESTY

Participants expected the tax authority to make substantial improvements in the administration, particularly in information technology (IT). R14 proposed that the Indonesian tax authority provide online registration for the next program. This participant experienced an extremely long queue when registering for the tax amnesty program. Improved services are likely to increase tax morale which then positively leads to compliance.⁷¹

Through this tax amnesty, the DGT has expanded its database. Therefore, one participant (R17) expected the DGT to proceed accordingly, without discrimination. This participant added that taxpayers required certainty and justice. Previous studies have indicated that a tax amnesty should be followed by increased tax enforcement to address individuals who refuse to comply with tax rules.⁷²

One participant, R19, emphasised the importance of a hearing before tax amnesty legislation. This process would enable taxpayers to provide feedback and express their expectations from the program. Such a hearing could be considered for the next program. Corresponding to this, a tax amnesty would be likely to produce a significantly better result if it involved participation from a wider community before being legislated.⁷³

According to a number of participants, the imposition of an annual revenue target on the DGT should be abolished. As is widely known by taxpayers, the revenue target is distributed to regional and local tax offices. The accomplishment of this revenue target becomes the performance measurement for each tax office (including its tax officers) and the DGT at large. As a consequence, tax officials have the tendency to enforce compliant taxpayers who were already in the tax system rather than those who remained unregistered, according to a

⁷⁰ The Directorate General of Taxation, 'President Joko Widodo Launched National tax Amnesty Program' (Press Release, 1 July 2016) <<https://www.pajak.go.id/sites/default/files/d7//PR%2055-%20President%20Jokowi%20Launched%20National%20Tax%20Amnesty%20Program.pdf>>.

⁷¹ Benno Torgler and Kristina Murphy, 'Tax morale in Australia: what shapes it and has it changed over time?' (2004) 7(2) *Journal of Australian Taxation* 298, 335 <<https://search.informit.org/doi/epdf/10.3316/ielapa.200503223>>.

⁷² Alm, Vazquez and Wallace (n 20); Bayer, Oberhofer and Winner (n 20); Torgler (n 64).

⁷³ Benno Torgler and Christoph A. Schaltegger, 'Tax amnesties and political participation' (2005) 33(3) *Public Finance Review* 403, 431 <<https://doi.org/10.1177/1091142105275438>>.

participant (R14). This participant further explained that this activity was carried out because it was easier than pursuing those outside of the tax system. R14 added that the revenue target was rarely accomplished, and that even the tax amnesty target for repatriation was not achieved. A similar view was expressed by R13 who stated: “*The finance minister or the tax chief should not impose a (revenue) target on each tax office, do not impose the target because if targeted a tax office could behave uncontrollably to find taxpayers’ mistakes in order to meet the target.*” Another participant (R17) added that fulfilling the revenue target should not become the burden of certain taxpayers. This participant urged impartial approaches towards taxpayers.

Participant R14 added that they expected the value added tax (VAT) to be imposed only once, as an alternative to a series of impositions. This participant explained that, under the current schemes, their company had to regularly apply for a VAT refund, which disturbed the company’s cash flow. Under the Indonesian tax law, applying for refund may result in becoming exposed to tax audit. In turn, this audit can lead to disputes which will be time consuming for taxpayers.

The reasons provided by participants for registering for the tax amnesty imply that most of them were already registered in the tax system. In this respect, they perceived a tax amnesty as an opportunity to settle their tax issues. On the other hand, the number of new taxpayers entering the tax system through the tax amnesty was insignificant. Prior to the introduction of the tax amnesty, there were more than 17 million unregistered individuals and corporations that should have been included in the tax system.⁷⁴ Based on the annual reports of DGT,⁷⁵ between 2015 and 2017, the average increase of new taxpayers was around three million registrants per annum. This means that the increase in newly added taxpayers remains static, despite the tax amnesty. Further, it could indicate that the amnesty revenue was mainly collected from the registered taxpayers.

The above information may help explain low tax revenue faced by the Indonesian tax authority. In reference to the tax-to-GDP ratio post-amnesty, the ratio in 2018 was 11.9% and in 2022 was 12.1%.⁷⁶ By comparison, the Asian and Pacific average in 2022 was 19.3%. These ratios

⁷⁴ The OECD (n 1).

⁷⁵ The Directorate General of Taxation, *Annual Report (2017)*; The Directorate General of Taxation, *Annual Report (2016)*; The Directorate General of Taxation, *Annual Report (2015)*.

⁷⁶ The Organisation for Economic Co-operation and Development, *Revenue Statistics in Asian and Pacific Economies 2020* (Report, July 2020); The Organisation for Economic Co-operation and Development, *Revenue Statistics in Asia and the Pacific 2024: Tax Revenue Buoyancy in Asia* (Report, June 2024).

indicate that the substantial revenue collected from the amnesty did not significantly impact tax revenue after the amnesty year. To put it another way, extensive asset disclosures during the amnesty did not necessarily lead to increased tax compliance afterwards. Reflecting on the previous decade, in 2007, the Indonesian tax-to-GDP ratio was 12.2%. Overall, from 2007 to 2022, the Indonesian tax-to-GDP ratio remained static despite various tax incentives offered to taxpayers over the decades.

A tax amnesty as the respectful option for the noncompliant had been provided. In line with the literature,⁷⁷ post-amnesty should be followed by adapting the approach to enforcement rather than by offering the same amnesty in the near future. Pertaining to this enforcement approach, the head of the DGT issued a circular regulating supervision of those who participated or did not participate in the tax amnesty.⁷⁸ To support enforcement efforts, the tax authority may also optimise the automatic exchange of information (AEOI) with partner countries to discover unreported transactions overseas. This AEOI came into effect in September 2018.⁷⁹ However, the implementation of the circular was unclear, and the planned enforcement faced opposition from amnesty participants.⁸⁰

IV CONCLUSION

This research indicates that the tax amnesty became the moment for taxpayers to rectify their mistakes. In addition to avoiding penalties, eluding a tax audit was also part of the reasons for participation as the Indonesian tax amnesty provided a guarantee of audit exemption up to certain fiscal years for tax amnesty registrants. The tax amnesty provided an opportunity for reconciliation between the tax authority and taxpayers. There were participants who tried to become more compliant in the future while there were others who seemingly exploited this program. Based on participants' information, there were others who decided to remain outside

⁷⁷ John Braithwaite, 'Types of Responsiveness' in Peter Drahos (ed), *Regulatory Theory: Foundations and Applications* (Australian National University Press, 2017) 117, 132
<<https://library.oapen.org/bitstream/handle/20.500.12657/31596/626829.pdf?sequen#page=61>>.

⁷⁸ The Directorate General of Taxation, *Pengawasan Wajib Pajak Pasca Periode Pengampunan Pajak*, (SE 2018/14, 19 Juli 2018).

⁷⁹ Donnal Andri Putra and Bambang P. Jatmiko, 'September, Indonesia Siap Terapkan Pertukaran Informasi Perpajakan' *Kompas* (online, 30 August 2018)
<<https://ekonomi.kompas.com/read/2018/08/30/120537726/september-indonesia-siap-terapkan-pertukaran-informasi-perpajakan>>.

⁸⁰ Yoga Sukmana, 'Pengusaha Bingung Ikut "Tax Amnesty" Masih Diperiksa, Ini Kata Dirjen Pajak' *Kompas* (online, 16 Mei 2017)
<<https://money.kompas.com/read/2017/05/16/192044426/pengusaha.bingung.ikut.tax.amnesty.masih.diperiksa.ini.kata.ditjen.pajak>>.

of the tax system. The number of those attracted to enter the tax system, through the amnesty program, remains obscure. This information may help mitigate participants' suspicions towards this program and build trust in the tax authority. With regard to motivational postures, participants' attitudes towards the tax authority greatly varied, from commitment to game playing. Those with game playing postures even forged documents to participate in the tax amnesty. Therefore, persuasion alone may not suffice to encourage tax compliance. To address this issue, the DGT had issued a circular letter to follow up the amnesty program. According to participants, the tax amnesty should also be followed by an improvement in the tax administration, including the IT infrastructure, in order to make it easier to pay tax. Repeating tax amnesties may encourage tax evasion, as taxpayers defer their reporting in the anticipation of the future tax amnesty. Hearings prior to tax amnesty legislation are highly important, allowing taxpayers to become involved in the process and provide suggestions. A number of participants also criticised the imposition of annual revenue targets on the DGT as this may cause strained relationships between taxpayers and tax officials. Research findings indicate that the Indonesian tax amnesty did not result in increased revenue following the amnesty period, despite being promoted as a major success. This can be reflected by the static Indonesian tax-to-GDP ratio from 2007 to 2022.

V LIMITATIONS AND CONTRIBUTIONS

This research mainly focused on tax amnesty participants. In consequence, the information on why those unregistered did not participate in the tax amnesty could not be determined. Conducting future research on the unregistered could provide different perspectives. However, it could be more challenging to recruit them as research participants.

Intensive tax amnesty research has been conducted in developed countries such as the United States, Ireland, and Italy, among others. There is limited research on tax amnesties focused on developing countries. This study attempts to bridge this gap in the literature by providing insights that may be particularly useful for other developing countries.

As a final observation, there appears to be a connection between the Indonesian tax amnesty with the national elections. The 2016 Indonesian tax amnesty followed two years after the elections in 2014. In a similar manner, the 2022 tax amnesty was introduced three years after the 2019 national elections. At the time of writing, Indonesia has just held its 2024 national

elections. It will be intriguing to find out if these elections are also followed by a tax amnesty. This information may be important for future research.

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