UNDERSTANDING THE REGULATORY FRAMEWORK FOR TAX AUDITS IN INDONESIA: A PLATFORM FOR CHANGE?

JAMES MCMILLAN,* LEONARDO ZULKARNAIN** AND HENDERI***

ABSTRACT

This Article examines legal and administrative issues relating to the conduct of tax audits in Indonesia and considers ways in which the Indonesian Directorate General of Taxation ('DGT') might implement changes to the regulation of its current tax audit approach. Through this analysis, the Article concludes there is considerable scope and flexibility available for revising and improving implementing regulations with respect to tax administration practices and procedures, which can be used to make improvements in the DGT's audit effectiveness, without the need for significant legislative change. Changes in the DGT's approach to tax compliance activities are necessary for Indonesia to achieve an increase in its tax to GDP ratio and improve its overall revenue collection efforts.

* Charles Darwin University.

** Al Azhar University Indonesia.

*** University of Western Australia.

I INTRODUCTION

This Article examines the broader legal framework within which tax audit activity in Indonesia is regulated, and it also considers how this regulatory framework affects the way Indonesia's principal revenue collection authority (the Directorate General of Taxation - "DGT") conducts tax audit activity in practice. The Article includes brief descriptions of Indonesia's constitutional framework, as well as an explanation of how the civil law tradition inherited from the former colonial power, the Netherlands, has shaped the subsequent post-colonial development of Indonesian law, including taxation law. The Article also describes the way laws are enacted by the Indonesian parliament and the important role played by various types of regulations in supplementing the text of statutes. As is the case in other areas of Indonesian law, the taxation legislation is brief and provides a principles-based framework, whereas the detail about the implementation of the law is to be found in the regulations, which therefore form an integral and important part of the overall tax law. The Article then considers the main features of Indonesia's tax system, which it is said is "well-designed in principle"[1]. This part of the article includes a description of the DGT's administrative structures and approaches to its revenue collection functions, and the way in which the DGT segments tax administration and compliance responsibilities between different types of tax offices.

The focus of the Article is its description of legal and regulatory requirements for the conduct of tax audit and compliance activity by the DGT, reflecting the implementation of a new tax audit regulation in February 2025 (PMK-15). The Article concludes with a consideration of recommendations for Indonesian tax administration reform made by international economic agencies over the past 15 years, especially those reforms which have not yet been implemented by the DGT, together with a consideration of potential legal and legislative barriers which might inhibit potential change, and whether there are alternative non-legislative means by which tax administration reform could be achieved.

The importance of further reform to the DGT's tax administration approach is highlighted by Indonesia's consistently low tax to GDP ratio.[2] Recent media reporting indicates that "the

---

1 N Hamilton-Hart and G Schulze, 'Taxing Times in Indonesia: The Challenge of Restoring Competitiveness and the Search for Fiscal Space' (2017) 52.3 *Bulletin of Indonesian Economic Studies* 265, 291.

2 Directorate General of Taxation, *DGT Annual Report 2023: Strengthening Strategy, Boosting Performance* ('DGT Annual Report, 2023') 71.

government appears to have struggled to reach beyond 10 per cent, with the tax-to-GDP ratio only reaching 10.39 per cent (2022), 10.31 per cent (2023), and 10.08 per cent (2024)", with the target for the 2026 year set at 10.47%.[3] This falls well short of the Indonesian Ministry of Finance's long-term "Tax Policy Objective" to achieve a tax to GDP ratio of 16%, which has been reconfirmed by President Prabowo.[4]

The Article employs text-based (doctrinal) research methods reflecting a legal positivist theoretical approach, and it therefore refers mainly to the existing body of Indonesian tax law, principally legislation and regulations. Through its analysis of the legal framework within which the DGT operates, including the conduct of tax audits, it provides a platform on which further consideration of reform to Indonesian tax administration can be based. The article provides a comprehensive English language description of Indonesia's tax regulatory framework, especially relating to the conduct of tax compliance activity, and therefore it may assist other scholars examining Indonesian tax compliance issues in future. As described in the last part of the Article, it provides a starting point for considering how changes recommended by international agencies for further reform of Indonesian tax administration approaches could be implemented, especially through changes to implementing regulations which can be made without the need for legislative approval.

II OVERVIEW OF INDONESIA'S LEGAL SYSTEM

To understand the legal basis for the Indonesian tax system, it is first necessary to consider the origins of the modern Indonesian State (the Republic of Indonesia) and the development of its legal framework and institutions. The Republic of Indonesia's declaration of independence was made by leaders of the Indonesian nationalist movement on 17 August 1945, at the end of the Second World War,[5] and following a 4-year conflict with the Netherlands colonial authorities, Indonesia's *de jure* independence was achieved with the transfer of full sovereignty

---

3 Jakarta Globe (18 August 2025) <https://jakartaglobe.id/business/shadow-economy-corporate-evaders-why-indonesias-tax-ratio-remains-low-at-10#goog_rewarded>.

4 Directorate General of Taxation, *DGT Annual Report 2019: Continuous Development of Organizational Capacity through Strengthening the Governance of Taxation Data and Information Technology* ('DGT Annual Report, 2019') 60. This objective has recently been reiterated by President Prabowo; see: Laksono R, *How Prabowo's 8% growth target will shape Indonesia's fiscal policy,* University of Melbourne at: https://indonesiaatmelbourne.unimelb.edu.au/how-prabowos-8-growth-target-will-shape-indonesias-fiscal-policy/ (26 September 2024).

5 A. Vickers, *A History of Modern Indonesia* (Cambridge University Press, 2nd ed, 2013) 99.

from the former Netherlands East Indies to the federal "United States of Indonesia" in December 1949 (which, in turn, transitioned to the modern unitary state, the Republic of Indonesia, in May 1950).[6]

A *The Development of the Indonesian Constitution and the Ongoing Dutch Legacy in Indonesian Law and its Civil Law Tradition*

The transition of modern Indonesia from its post-colonial origins has been marked by periodic constitutional change. This process of change has forged the legal institutions of contemporary Indonesia, most notably through the amendments made to the original 1945 constitution of the Republic of Indonesia over the period between 1999 and 2002, following the end of the regime previously headed by President Suharto in 1998 and as a product of the subsequent *reformasi* era.[7] It is significant that following Indonesian independence, transitional measures in the 1945 Constitution provided that "all existing institutions and regulations valid at the date of independence would continue to be valid, pending the enactment of new legislation", with the end result being "effectively, the survival of the colonial legal *status quo*".[8]

Although more than 80 years have elapsed since Indonesia's declaration of independence in 1945, that initial *status quo* compromise has been maintained, and some major Indonesian laws, such as the Civil Code, remain in the same statutory form as that originally brought into force in Indonesia by Netherlands East Indies colonial authorities in 1847. A key legacy of the Dutch influence is that the Indonesian legal system has inherited other elements of the civil law tradition, including "the absence of a formal system of precedent".[9] Nevertheless, to some extent, Indonesia has adopted its own informal precedent system, *Yurisprudensi Indonesia* (Indonesian Jurisprudence), particularly for important Supreme Court decisions.

Indonesia has a specialist Tax Court which, historically, has sat outside the usual hierarchy of the Indonesian court system and was administered by the Ministry of Finance, rather than by

---

6 T Lindsey and A Santosa, 'The trajectory of law reform in Indonesia: A short overview of legal systems and change in Indonesia', in T Lindsey (ed) *Indonesia Law and Society* (The Federation Press, 2008) 5-8.

7. T Lindsey, 'Constitutional Reform in Indonesia: Muddling towards democracy', in T Lindsey (ed), *Indonesia Law and Society* (The Federation Press, 2008) 23-24.

8 Lindsey and Santosa (n 6) 8.

9 S Butt and T Lindsey *Indonesian Law*, (Oxford University Press, 2018) 49.

the Supreme Court. Under that arrangement, the only right of appeal against a tax objection decision by the DGT lies to the Tax Court, and no merits-based appeals are available against Tax Court decisions. The Supreme Court does retain some responsibility for the "technical-legal competence" of the Tax Court, and a limited right of judicial review (*peninjauan kembali*) by the Supreme Court is available in respect of Tax Court decisions, primarily in cases where there has been a "clear judicial error" by the Tax Court, and in some other limited circumstances such as in the event of perjury.[10] The practical role of the Tax Court is significant, given the high incidence of appeals against assessments arising from tax audits in Indonesia and the high rate of successful challenges against those assessments by taxpayers. In the 2023 year, the DGT reported that it successfully defended only 33.33% of tax appeals.[11] Note that the Tax Court is scheduled to come within the control of the Supreme Court no later than 31 December 2026, as result of a decision of Indonesia's Constitutional Court on 25 May 2023, with procedural and other implementation changes anticipated which will have a bearing on a taxpayer's review rights.[12]

B *Placing Indonesian Tax Law in the Broader Constitutional and Legal Framework*

Following the completion of the most recent Indonesian constitutional reform process in 2002, there is a clear separation of powers, with legislative power vested in a democratically elected parliament, executive power vested in a directly-elected Presidency with broad and extensive administrative powers, and the establishment of a separate and independent judiciary (comprising both the Supreme Court and the Constitutional Court, with the Supreme Court having responsibility for supervision of lower courts). Relevantly, the 1945 Constitution (Article 23A) authorises the Indonesian legislature to enact laws about taxation, "to meet the needs of the state".[13]

It is a feature of the Indonesian system that "most Indonesian statutes aim to provide a general legal framework for their subject matter, leaving the regulatory detail to lower-level laws, such as government regulations (*peraturan pemerintah*), presidential regulations (*peraturan*

---

10 Ibid 93, 387.

11 DGT 2023 (n 2) 11.

12 See the website of the Indonesian Constitutional Court: <https://en.mkri.id/news/details/2023-05-25/Court:_Organizational_Fostering_of_Tax_Court_Under_Supreme_Court>.

13 Butt and Lindsey (n9) 379.

presiden), and ministerial regulations *peraturan menteri*," and that statutes might be regarded as a "statement of national intention", with implementation depending on the promulgation of separate implementation rules.[14] The main Indonesian income tax law (Law Number. 7 of 1983) comprises fewer than 30 pages. Other non-statutory regulations and decrees therefore play a very significant role in setting detailed rules, especially with respect to tax administration matters (including tax audit formalities and requirements).

Amendments to tax legislation are relatively infrequent. These include the most recent substantial legislative reforms made during the period from 2007 to 2008, together with other amendments being made periodically. The most recent changes in the *Harmonisation of Tax Regulations Law*[15]*,* enacted in 2021, provide the legal basis for significant measures to address tax avoidance (and other matters) and were implemented on 22 December 2022 by *Government Regulation No.55 Year 2022*.[16]

In a general sense, within the Indonesian hierarchy of law, legislation enacted by the Indonesian Parliament ("*Undang undang*") is at the apex, with various kinds of subordinate legislation and regulations listed below, in order of precedence:[17]

1) Peraturan Pemerintah Pengganti Undang-undang (Government Regulation in lieu of Law)
2) Peraturan Pemerintah (Government Regulation) and
3) Peraturan Presiden (Presidential Regulation).

Other categories of regulations that can be made (and which may be relevant in a tax law context) include:

1) Peraturan Menteri Keuangan (Ministerial Regulation)
2) Keputusan Menteri (Ministerial Decree)
3) Instruksi Menteri (Ministerial Instruction)

---

14 Ibid 49.

15 Law No.7 Year 2021, effective from 29 October 2021

16 PwC Indonesia "Tax Flash" No. 26 (December 2022) <https://www.pwc.com/id/en/taxflash/assets/english/2022/taxflash-2022-26.pdf>

17 Butt and Lindsey (n9) 37.

4) Peraturan Direktur Jenderal (Director General Regulation)
5) Keputusan Direktur Jeneral (Director General Decree)

In the field of Indonesian tax law, it is quite common for significant regulations to be made by Ministerial *fiat*. These "Ministerial" regulations do not fall specifically within the hierarchy of law but nevertheless have legal force, and "provide significant flexibility for ministers, in practice allowing them to regulate almost anything that falls within their portfolios".[18] For example, the principal regulation governing the conduct of tax audits is a ministerial regulation ("Regulation of the Minister of Finance of the Republic of Indonesia Number 15/PMK 03/ 2025 Concerning Procedures for Examination" – which is generally referred to as "PMK-15"). It is also common for significant tax issues to be dealt with in regulations made by the Indonesian Director General of Taxation (*Direktur Jenderal Pajak*).

The hierarchy of laws in Indonesia in a general sense "is much criticized in Indonesian legal circles for being incomplete and unclear in its operation"[19]. However, there is also a general acceptance of (and adherence to) the framework of regulations that supports the Indonesian tax legislation by participants in the system and it appears the validity of implementing regulations is not legally contentious in tax disputes and Tax Court appeals, which instead focus on whether the regulations have been applied correctly in the taxpayer's circumstances. Importantly, this provides greater flexibility to Indonesian tax authorities to implement changes to tax audit practices and procedures without the need for specific legislative approval.

III OVERVIEW OF THE INDONESIAN TAX SYSTEM

In the post-independence period, many colonial tax laws and regulations were retained by the newly established Republic of Indonesia, whilst other new taxes were introduced, such as a general sales tax introduced in the 1950s. However, as observed by Korte: "…overall the tax system was weak and the administrative capacity low, tax administration was fragmented and exercised by different Government agencies (which eventually led to the establishment of the Directorate General of Taxation in 1967 and the consolidation of different tax administration functions within a single agency under the control of the Ministry of Finance), and that for as

18 Ibid 53.

19 Ibid 51.

long as state revenues from the oil and gas sector remained high, there was little focus on tax collection".[20] By 1983, following a decline in oil and gas revenues, tax structural reforms were implemented including the introduction of a value added tax (VAT), which resulted in increased tax revenue. In broad terms, the legal basis for the modern Indonesian tax system remains the legislation by which these 1983 reforms were implemented[21] with both the 1983 *Income Tax and Taxation Procedure Laws* (Law Numbers 6 and 7 of 1983) remaining in force, albeit with subsequent amendments (as noted earlier).

A *Principal Taxes and Tax Rates*

Prior to the 2020 year, the basic Corporate Income Tax rate was 25%; however, since the 2020 fiscal year, the rate has been reduced to 22%. In addition, for those companies having more than 40% of their shares listed on the Indonesian stock exchange, for years prior to 2020, a 5% tax rate reduction applied to reduce the effective tax rate to 20%. From 2020, with the lowering of the headline tax rate from 25% to 22%, the listed company tax rate reduction is now 3%, meaning that for the 2020 and subsequent years the applicable tax rate for a listed company is 19%.[22] The basis for imposing corporate income tax is the company's accounting profit, which is calculated in accordance with normal accounting principles and with a limited number of tax-sensitive adjustments, such as for benefits-in-kind provided to employees, most accounting provisions, and expenses related to earning income which is either exempt or subject to a "final" withholding tax. Note that under the profits-based approach, capital gains are taxed as ordinary income.[23]

The maximum tax rate applying to individuals who are tax residents of Indonesia is 35% for income above IDR 5 billion per annum (approximately A$500,000). Progressive tax rates apply to lower income earners, and no tax is payable on annual income under IDR 54 million A$5,400). Resident taxpayers are subject to tax on worldwide income.[24]

---

20 N Korte, N 2013, 'The Political Economy of Public Administration Reforms in Southeast Asia: A Comparative Analysis of the Tax Administration in Indonesia and the Philippines', (PhD Thesis, University of Hamburg, 2013) 63.

21 Ibid 62-64.

22 PwC Indonesia, *2025 Indonesian Pocket Tax Book* 1

23 Ibid 8.

24 Ibid 20.

Withholding taxes play an important role in Indonesia's tax system and one tax consulting firm has noted that: "Indonesian income tax is collected mainly through a system of withholding taxes".[25] Withholding taxes take two distinct forms: those which are withheld from a payment made to a payee which can then be used as a credit against the payee's own tax liability, and those which constitute a "final" tax on that income i.e., income subject to final tax is effectively excluded from the payee's taxable income. In the first of these categories, employers are required to withhold tax from payments made to employees (Article 21 tax) and payments are also subject to withholding of tax in respect of a range of specified goods and services (Article 22 tax), and to domestic payments of dividends, interest and royalties to Indonesian resident taxpayers at a rate of 15% (Article 23 tax).

In addition to withholding taxes, an instalment system applies to corporate income taxpayers, and monthly tax instalments are payable (Article 25 income tax); generally speaking, the amount of the instalment is determined by reference to the most recent corporate income tax return. Overpayment of tax instalments (for example, in years where a company's profits have declined from one year to the next) and the availability of Article 22 and Article 23 withholding tax credits are common reasons why a company may seek a tax refund in a particular year, which in turn will trigger a mandatory tax audit. A contributory factor to the number of tax overpayments is the practical difficulties that taxpayers experience in varying the amount of monthly Article 25 instalment payments to reflect changing profitability circumstances. Where a corporate taxpayer's tax instalments and withholding tax credits are insufficient to cover the corporate income tax that is due, the shortfall must be settled before the date that an income tax return is due. This is known as Article 29 income tax.[26]

As noted, a separate category of "final" withholding taxes applies to dividends, interest and royalties and other income amounts paid by an Indonesian payer to a non-resident payee (Article 26 withholding tax). These payments are subject to a flat withholding tax rate of 20% and may be subject to reduction to a lower rate in accordance with the terms of an applicable double tax agreement. Treaty relief is only available where the non-resident payee satisfies the

---

25 Ibid 26.

26 Law No.7 Year 1983.

strict compliance requirements imposed by the DGT to ensure that the payee is both a bona-fide non-resident and the beneficial owner of the income.[27]

A final income tax system can also apply to a variety of different types of income derived by Indonesian-resident taxpayers, including passive income such as rent (taxed at 10%) and interest (taxed at either 15% or 20%). The final income tax system also applies to various types of construction activity (at rates of 1.75%, 2.65%, 3.5%, 4% or 6%). (Although not subject to final tax, some industries such as domestic shipping are taxed on a deemed profit margin, so the resulting tax liability is similar to a final tax). Notably, final taxes are not profit-based, but rather the amount of tax withheld is based on the amount of gross income paid to the payee. An unusual feature of the Indonesian final income tax system is its general application to small business taxpayers with gross turnover less than IDR 4.8 billion (approximately A$480,000), for a period of up to 7 years for an individual and 4 years for a corporate taxpayer. The tax rate is 0.5% of revenue[28]. This type of taxation has a distortionary effect, in the sense that the burden of the tax is not proportionate to the taxpayer's profitability, so that businesses bearing high costs are subject to relatively higher rates of taxes proportionate to their profits compared to those with lower costs (and higher profit margins).

Another noteworthy feature of Indonesia's tax system is its very high VAT-registration turnover threshold of IDR 4.8 billion (approximately A$480,000). This higher threshold was introduced in 2014 and represented an eight-fold increase of the threshold that had applied previously, which had previously been IDR 600 million (equivalent to approximately A$60,000). As a result, the number of VAT taxpayers is now estimated to be only 50,000 firms[29], compared to the 400,000 firms that were registered to pay VAT based on the previous threshold[30].

Both the OECD and IMF have observed that Indonesia's VAT threshold is very high compared to most other countries[31], (including Australia where the VAT registration threshold is

---

27 PwC Indonesia (n 21) 32-34.

28 Government Regulation No. 55 Year 2022, Article 56.

29 OECD, 'Raising More Public Revenue in Indonesia in a Growth and Equity Friendly Way' Economics Department Working Papers No. 1534 (2019) ('OECD 2019') 27.

30 IMF, 'Indonesia Selected Issues' IMF Country Report No. 18/33 (2018') 13.

31 Ibid.

A$75,000), and have identified VAT changes as a potential additional source of revenue, noting that its current design "compromise[es] the VAT's efficiency and neutrality".[32] Although not discussed by either the OECD or IMF, the increase in the VAT threshold took effect from 1 January 2014 and was concurrent with other measures introduced by the DGT making it mandatory for VAT taxpayers to use Electronic VAT invoices (*faktur pajak*), which must be processed using the DGT's system. The stated objective of the threshold increase was to reduce the compliance burden on small and medium sized businesses, whilst the introduction of electronic VAT invoices was intended to "make it easier for VAT-able Entrepreneurs to collect VAT on the delivery of taxable goods/services".[33]

The effect of reducing the number of VAT payers by increasing the turnover threshold for VAT registrations has been identified by some of the international economic agencies as a contributing factor to the decline in Indonesian VAT revenue.[34] The very small number of VAT registrants in Indonesia means that Indonesia has not benefited from opportunities to improve overall levels of business tax compliance (including personal and corporate income tax) that are available where there is a broad-based VAT with a lower turnover threshold registration requirement. A well-designed and properly administered VAT system promotes self-enforcement of a range of tax obligations and by encouraging a higher proportion of businesses to register as VAT payers, a further consequence is that those businesses also become registrants for other tax purposes. Therefore, a focus on increasing the number of VAT payers can lead to increases in the overall level of formal participation in the tax system and consequentially can lead to incremental increases in other sources of tax revenue (e.g. income tax).

B *Law and Regulations Governing the Conduct of Tax Audits*

Articles 17, 17A and 17B of the *General Provisions and Taxation Procedure Law No. 6 of 1983* provide for a refund of a tax overpayment in certain circumstances, but it is a pre-condition for approving the taxpayer's refund request that the Director General of Taxation must first conduct an audit. The position under this law is reinforced by a new regulation

---

32 Ibid.

33 PwC Indonesia, 'Tax Flash No. 20, Introducing the Electronic Value Added Tax Invoice' (2013).

34 OECD (n 29) 27.

governing tax audit activity made by the Indonesian Minister of Finance, Regulation PMK-15 which took effect from 10 February 2025, which confirms that a tax audit is mandatory in tax refund cases. PMK-15 also sets out in quite specific terms the processes and time-frames that must be adhered to by the DGT in undertaking tax audit activity.[35]

The legal authority for tax audits is derived from Article 29 of the *General Provisions and Tax Procedures Law*. Article 29 sets the broad framework for audit activity and indicates that tax audits must be performed within 5 years of the end of a tax period (Article 13). In refund cases, the timeframe for completing the audit is only 12 months, and in a practical sense this means "that the completion of audits is often rushed due to time pressures, with the result that assessments are made without a proper basis, and that taxpayers must rely on appeals to the Tax Court to have proper consideration of their evidence and explanations".[36]

The procedure for conducting tax audits is dealt with in Article 31 of the *General Provisions and Tax Procedures Law* which states that tax audit procedures will be governed by Regulations made by the Minister of Finance. Accordingly, this is the legal (statutory) authority for the principal tax audit regulation in Indonesia, PMK-15. There are various circumstances in which tax audits may be carried out, including tax refund cases but also failure to lodge tax returns, and cases identified through "risk analysis" (Article 4(1)). PMK-15 also regulates the DGT's conduct in carrying out an audit, for example, matters such as the scheduling of meetings with taxpayers, and the time frames within which particular audit activities must be carried out. It is significant that PMK-15 does not address the way in which audit activities are to be conducted by the DGT, and it is confined mainly to procedural issues (which are dealt with in great detail). This, perhaps, reflects the strict 12-month timetable for completing audits arising from tax refund requests. However, PMK-15 does confer broad powers on tax auditors to conduct audits to test compliance with obligations under tax laws and

---

35 Minister of Finance (Indonesia), 'Regulation governing tax audit activity made by the Minister of Finance Number 15 of 2025', (Peraturan Menteri Keuangan Republik Indonesia Nomor 15 Tahun 2025 Tentang Pemeriksaan Pajak) Regulation PMK-15/2025 (10 February 2025).

36 J McMillan, "Tax Audit Effectiveness and Revenue Collection Outcomes in Indonesia". Journal of Australian Taxation (2023) Volume 25(1) 34, 45.

regulations. It also contemplates that "group audits" may be undertaken, although it appears that (in practice) such types of audits are relatively rare.[37]

A "general audit standard" requires auditors to have sufficient technical education and training and to "use their skills carefully and thoroughly", to have integrity, and to be independent (Article 5(3)). It is of note that Article 9(3) authorises the DGT to engage both internal and external experts to assist in the conduct of audit activities. Article 5(4) generally imposes requirements about the way in which an audit must be prepared, conducted, and documented. Paragraph e of Article 5(4) requires preparation of an "Audit Working Paper" which must record in detail the procedures followed and data sources used in conducting the audit activity, and Article 20 requires preparation of an "Audit Result Report" to summarise the Tax Auditor's conclusion, including details about the results of the examination conducted, the tax payment calculation, and conclusions and recommendations.

Article 7 of PMK-15 establishes procedures relating to the conduct of the audit and covers such matters as the need to issue notification letters to taxpayers, provide taxpayers with details of the audit team membership and confirmation of their identities, and to conduct a preliminary meeting with the taxpayer to explain the purpose and scope of the audit, as well as the taxpayer's rights and obligations. It imposes secrecy obligations on audit team members, whilst also providing auditors with general powers to request oral and written information from taxpayers. Correspondingly, Article 8 of PMK-15 deals with rights and obligations of taxpayers, including the right to seek information from the audit team but also (in particular) an obligation to co-operate in the conduct of the audit and provide information and data requested by the audit team.

Article 6 of PMK-15 is also significant. It imposes a series of deadlines which must be complied with by the audit team, with the effect that the audit must usually be completed within 5 months in all cases (not just refund cases), with some limited rights to extend the audit period by up to 4 months for a group or transfer pricing audit. An extra month is allocated for findings issuance and the final meeting with taxpayers. Audit Completion procedures are dealt with in Article 20 of PMK-15, including the obligation to prepare the Audit Result Report (LHP) and

---

37 Ibid 44-45.

the various detailed timelines within which steps must be taken in other scenarios in which an audit may be completed.

Other Parts of PMK-15 deal with matters such as annulment of audit result (Article 21), obligations and procedures relating to meetings with taxpayers (Article 11), borrowing of documents and other data sources (Article 12) and some complex procedures relating to "sealing" which are designed to preserve information, documents and records in situations where taxpayers are not co-operative, or are not available to authorise the DGT auditors to have access to the information, records or documents (Article 14 and 15). Potentially significant in a practical sense is Article 16 which authorises audit teams to request accesses to information and evidence held by third parties, in accordance with the terms of Article 35 of the *General Provisions and Tax Procedures Law*, although such requests must be made in accordance with other Ministry of Finance regulations dealing with third-party information requests.

Articles 18 and 19 of PMK-15 deal with procedures around notification of final audit results and the discussion of those results with taxpayers, in exhaustive detail. Other Parts of PMK-15 address various other matters, including procedures to be followed where criminal tax offences are suspected (Article 15(4)), and also where a later re-examination of a taxpayer following completion of an audit is to be done (Article 25), which requires the express approval of the Director General of Taxation, and may be permitted in cases where new data has become available (including cases of non-disclosure by taxpayers). The Regulation also deals with examinations for "other" purposes (for example, registration or cancellation of Taxpayer Identification Numbers). The procedures for examination of this kind mostly duplicate the "regular" tax audit procedure regulations set out in PMK-15.

To summarise, the focus of PMK-15 is largely procedural, and DGT officers are required to comply with its procedural requirements and timetables in conducting tax audits. Relevantly, the requirements imposed by PMK-15 can be changed by an amending regulation, although the mandatory requirements to conduct tax audits in refund cases, and complete those audits within 12 months, is set by statutory law and therefore can only be changed by legislative amendments made by the Indonesian Parliament. Nevertheless, there may be greater scope for changes to be made to regulations and internal DGT procedures, to permit a different approach to the conduct of tax audit activity, for example, audit procedures might be developed which are less resource intensive and may be appropriate for some types of audit activities (e.g. in

"routine" refund cases where a taxpayer has a good compliance record), and thereby free up resources to allow more risk based audit strategies to be adopted. It is more likely that such changes could be formally approved by a Ministerial regulation, in contrast with the difficulty that may be experienced in changing requirements set by the *General Provisions and Taxation Procedure Law* (e.g. the mandatory refund audit requirement) which would involve the more problematic process of seeking legislative amendments to be made by the Indonesian parliament.

C *The DGT's Administrative Structures and its Approach to its Revenue Collection Functions*

Although the DGT was established in 1966 and the Indonesian tax system was extensively restructured in 2003, it was only following agreement between the Indonesian Government and the IMF for financial assistance in the wake of the Asian financial crisis of the late-1990s that an overhaul of tax administration was undertaken.[38] Whilst the tax administration reform program was led by the IMF, significant contributions were also made by Australian Government agencies and the World Bank. The essence of tax administration reform was to move the DGT from a structure whereby each tax was administered separately to one where all taxes are administered on an integrated basis so that a taxpayer's tax affairs are administered by a single office. The program was implemented progressively, commencing with a "Large Tax Office" pilot office in 2002, and subsequently pilot projects for a "Medium Taxpayer Office" and "Small Taxpayer Office" in 2004. Following the successful implementation of the pilot offices, the full reorganisation of the DGT was completed by 2008.[39]

As previously noted, the DGT publishes a comprehensive Annual Report[40] each year in the English Language, which is readily available from the DGT's website (most recently, for the year ended 31 December 2023), and which is candid in its presentation of DGT achievements as well as shortcomings. The document also includes a wide array of statistical measures and analysis of achievements against performance benchmarks, but it also provides insights into the DGT's priorities and principal areas of focus. The DGT's 2023 Annual Report explains in

---

38 K Prasetyo, 'The Role of Effective Tax Administration in Encouraging Greater Compliance with Taxation Laws in Indonesia' (PhD Thesis, Curtin University, 2018) 86, 87.

39 Ibid 5, 6.

40 DGT 2023 (n2); DGT 2019 (n 4).

considerable detail the current structure of the DGT which remains broadly consistent with the structure adopted between 2002 and 2008, as described by Prasetyo.[41] The DGT Head Office in Jakarta has a broad range of centralised policy setting and co-ordinating functions. Other Tax Office types are the Large Taxpayers Regional Tax Office, Special Jakarta Regional Tax Office, "other" Regional Tax Offices, Large Taxpayers Office, Medium Taxpayers Office, Tax Office, and Tax Services and, Dissemination and Consultation Office.[42] Within the authority of the Special Jakarta Regional Tax Office are a number of specialist Tax Offices, including Foreign Investment Tax Offices numbers 1 to 6, a Public Listed Company Tax Office, a Permanent Establishment and Expatriate Tax Office, and the Oil & Gas Sector Tax Office.

Tax Office locations are spread throughout Indonesia.[43] In total, the DGT has 595 office locations, counting tax offices of all types and 44,239 employees.[44] The Large, Medium and Local Tax Offices all perform a full range of tax administration functions, with segmentation based on taxpayer profile and size, as well as regional locations. Around a third (204) of Tax Offices fall within the Tax Services and Dissemination and Consultation category; these offices are established in more remote communities to provide a range of tax and information services, but do not carry out tax audit activities.[45]

The DGT reports that in 2023 it successfully defended 33.33% of tax appeals.[46] This relatively low percentage has been commented on previously in the OECD's 2012 report on the Indonesian Tax System, which observed: "Once a tax dispute is taken to court, private parties are often able to outspend the authorities on procuring legal advice, resulting in an uneven playing field. In 2024, over 60% of appeal cases were partially or fully granted. Allowing the tax authorities to have recourse to external legal advice in appeal cases where substantial public revenues are at stake may be a useful way to compensate for limited internal capacities."[47]

---

41 Prasetyo (n 38).

42 DGT 2023 (n 2) 236-243.

43 Ibid 245-276.

44 Ibid 64.

45 Ibid 65.

46 Ibid 11.

47 OECD, 'Improving the Tax System in Indonesia' (2012) *OECD Economics Department Working Papers* No 998, 27.

The DGT has also reported on its "Extensification" efforts, which it describes as "one of DGT's measures to supervise taxpayers who have met the subjective and objective requirements but have not registered themselves to obtain Taxpayer Identification Number in accordance with the provisions of tax legislation".[48] The DGT describes various activities it undertakes to identify these taxpayers, including sectoral focus and use of third-party data, as well as education and public efforts and follow up with new taxpayers who have registered but have not yet lodged tax returns or paid tax. The DGT report indicates that in the 2023 year, these "extensification" efforts led to the addition of 73,631 new taxpayers.

In the 2023 year, the DGT completed audits of 40,513 corporate taxpayers and 11,783 individual taxpayers i.e. a total of 52,296 audits for the year.[49] This appears to be a relatively low level of audit activity; with 1,665,826 corporate taxpayers apparently being obliged to submit a tax return; the "audit coverage ratio" for such taxpayers is only 2.43%. However, the performance is consistent with the 2019-year performance, in which the audit coverage ratio was 2.44%.[50]

It appears that in 2023 the DGT concluded 112 tax crime investigations, of which 29 cases involved the issue of fraudulent tax invoices, whilst 38 cases involved incorrect tax returns. The total value of seized assets was IDR 486.38 billion (approximately A$48.6 million). The DGT Annual Report also highlights its use of tax digital forensics to enhance its tax compliance efforts.[51] In a country the size of Indonesia, with a population currently estimated by the Indonesian Central Bureau of Statistics to be in excess of 284 million people in 2025[52], and where levels of formal participation in the tax system are low, the number of tax crime investigations appears low.

The DGT has established a "Directorate of Tax Data and Information" as part of its organisational restructure and its ongoing focus on improving the analysis of tax data and information. As part of these efforts, the DGT has also focused on developing "Compliance

---

48 DGT 2023 (n 2) 82.

49 Ibid 84.

50 DGT 2019 (n 4) 73

51 DGT 2023 (n 2) 90

52 Badan Pusat Statistik (Indonesian Central Bureau of Statistics), 'Statistik Indonesia: Statistical Yearbook of Indonesia', (2025), 123.

Risk Management", which it describes as "a risk-based taxpayer compliance management for the functions of extensification, supervision, audit and collection, continuing in the following years for the tasks of tax education, transfer pricing, law enforcement, assessment, objections and services."[53]

Another important performance measure for the DGT is what it describes as its "compliance ratio". The Compliance Ratio has been steadily improving, increasing from 73.06% in 2019 to 86.97% in 2023. However, it is important to note that the ratio is a measure of a specific type of compliance, that is, the extent to which taxpayers who are obliged to lodge tax returns are compliant with the requirement.

In many other countries "tax compliance" would usually be seen to be the extent of taxpayer fulfillment of all tax paying obligations, and in Australia (for example) the principal performance focus of the ATO` is on a more comprehensive performance metric based on "tax gap" measurement, being the difference between theoretical levels of tax collection capacity and actual performance levels achieved on a wholistic basis, incorporating revenue lost through non-compliance (principally income derived through the "black economy"). Notably, in the Indonesian context, the "Compliance Ratio" must by its nature only be measured by reference to taxpayers who are already compliant, at least in the sense that they have already registered as taxpayers. Also, it is a feature of the Indonesian system that the number of taxpayers obliged to lodge tax returns is noticeably less than the number of registered taxpayers – with 73,961,818 taxpayers reported as having registered as taxpayers[54] but only 19,182,071 taxpayers being obliged to lodge a tax return.[55] The total number of taxpayers obliged to lodge tax returns has slightly increased since 2019, when 18,334,683 taxpayers were required to do so. It is nevertheless curious that the effort has been made by the DGT to register nearly 55 million taxpayers who are not required to lodge tax returns.

D *Engagement Between the DGT and International Donor Agencies*

For the 2023 year, the DGT reported that it received support from several "donor" agencies which provided technical assistance: the Japan International Co-operation agency (JICA); the

---

53 DGT 2023 (n 2) 3.

54 Ibid 10.

55 Ibid 208.

Agence Francaise de Développement (AFD); the Deutsche Gesellschaft fur Internationale Zusammenarbeit (German Society for International Cooperation, referred to as "GIZ"); the Australia Indonesia Partnership for Economic Governance (AIPEG); the Indonesia Australia Partnership Program for the Economy (Prospera), including the Australian Taxation Office (ATO); and the International Bureau of Fiscal Documentation (IBFD).[56]

Prospera provided significant assistance, including three staff secondments from the ATO to the DGT. Some of the assistance provided through Prospera included tax expenditure analysis, advice regarding imposition of VAT on foreign digital platforms (which is an important new revenue measure introduced by the Indonesian Government during 2020), and technical assistance in building a core tax administration system. JICA assistance related to Foreign Tax Credit systems and call-centre development. AFD assistance included the OECD workshops on transfer pricing, study, and recommendations for tax compliance improvement. Assistance from GIZ included an international tax workshop with a focus on transfer pricing and a workshop on the German tax system designed share knowledge about the German experience with matters such as the digital economy and anti-avoidance measures. IBFD assisted in transfer pricing and international taxation trainings.

The DGT's engagement with these agencies is indicative of a willingness to engage with international development agencies. Also, it provides some insight into matters seen as a high priority for the DGT, such as the new VAT arrangements for foreign owned digital and technology platforms but it does not appear that foreign aid assistance has been obtained recently regarding the design and implementation of tax audit methodologies and programs. Also left unanswered are questions about why other previous recommendations of international agencies have not yet been adopted, as discussed further, below.

E *Engagement Between the DGT and Other Supervisory Agencies*

Also relevant is the supervisory role played with respect to the DGT by other Indonesian Government agencies, and in the 2023 year the DGT indicates that four "external parties" are involved in supervision of the DGT – the Audit Board of Indonesia, the Inspectorate-General of the Ministry of Finance, the Finance and Development Supervisory Agency, and the Tax

---

56 Ibid 149.

Supervisory Committee.[57] BPK (the Audit Board of Indonesia, whose Australian equivalent is the Auditor General) conducted both financial reporting audits as well as performance audits in the 2023 year, dealing with the performance of tax audit conducted by the DGT.

The Inspectorate General of the Ministry of Finance has a supervisory role for all agencies within that Ministry, and it made various recommendations to the DGT as a result of its audit findings, including an evaluation of taxpayer accounting, a "tax supervision audit" and a VAT data supervision review. It appears that the Inspector General has a particular focus on DGT management processes – its role is described as making "tax-related findings regarding flaws in managing DGT tasks and functions".[58] Other audit activity included reviews of capital expenditure, core tax system development, and the management of Code of Conduct violations by DGT employees.

It also appears that in 2023, the Finance and Development Supervisory Agency evaluated income tax incentives for Micro, Small and Medium Enterprises (MSMEs); the "Tax Supervisory Committee" which is an independent body set up to assist the Minister of Finance, receives public complaints about DGT performance and provides feedback to the DGT. In 2023, the Committee received 38 complaints for follow up by the DGT.[59]

F *Improving Tax Administration Efficiency: Status of Recommendations Made by International Agencies to Change DGT Tax Audit Practices*

Although the 2023 DGT's Annual Report presents some very positive messages about the measures the DGT is taking to improve tax collections, the data indicates that these efforts have still not fulfilled the Indonesian Government's revenue collection objectives and that Indonesia's tax to GDP ratio performance has not improved substantially. In this context, it is therefore relevant to consider some outstanding recommendations made by international economic agencies about potential changes that should be considered by the DGT. As the International Monetary Fund has observed: "Indonesia faces the challenge of mobilizing revenue to provide fiscal space for poverty relief and infrastructure improvement. However, simply increasing revenue by further taxing compliant taxpayers can cause distortions and

---

57 Ibid 194-195.

58 Ibid.

59 Ibid.

increase inequalities. Raising revenues in an increasingly globalized economy requires strengthening broad-based taxes and improving tax compliance."[60] It is also evident that these challenges have increased in the wake of the COVID-19 pandemic.

The OECD has noted that: "A number of challenges remain for tax administration, as evidenced first and foremost by Indonesia's low tax take despite a tax policy design that is broadly reasonable and not as far from international best practice as the low level of revenues might suggest."[61] Significantly, the OECD has observed that: "Although they are not the only tool to improve tax compliance, tax audits constitute an integral part of any tax system based on self-assessment. Given that the tax administration has limited resources to conduct tax audits, these should be allocated in a way to maximise expected revenue collection. This implies a risk-based audit procedure, sparing taxpayers with a good compliance record, whilst focussing on those where there is evidence of non-compliance, possibly on the basis of earlier non-compliance or external data sources. Although tax audits in Indonesia have become more risk focused, the DGT still has to commit valuable resources to automatically triggered tax audits of taxpayers with a low risk profile. Any tax return showing an overpayment of tax and including a refund claim is subject to a compulsory tax audit, for example." [62]

Two specific reform recommendations made by the OECD should be noted: "Allocate more tax audits on the basis of risk assessments, and eliminate automatic audit requirements, increase the number of government auditors"; and "Make better use of third-party information and indirect ways of assessing tax liabilities e.g., by using information on assets or consumption items to trigger tax audits even for those not registered as taxpayers."[63]

Improvements to the Indonesian taxation system as a result of the legislative reforms implemented in 2007 and 2008 have been noted by the World Bank, especially the increase in "the number of registered taxpayers, from a total of about 4.8 million in 2006 to more than 22 million by 2013"[64]. DGT data indicates that significant further improvements have been since

---

60 IMF (n 30) 30.

61 OECD (n 47) 27.

62 Ibid 38, 39.

63 Ibid 30.

64 World Bank, *Program Document for a Second Institutional Strengthening for Social Inclusion (Second Institutional, Tax Administration, Social and Investment) Development Policy Loan* (2013) 47.

2013. The World Bank went on to observe: "However, the increase in the number of registered taxpayers, who are mostly individuals and small business, has not resulted in a significant increase in revenues, as substantial coverage gaps and systematic administrative weaknesses remain".[65] Also, as noted previously, the number of registered taxpayers has increased significantly over the past decade, but a significant proportion of registered taxpayers in Indonesia are not required to lodge tax return.[66]

A significant development in more recent years was the issue on 8 May 2017 of Government Regulation in Lieu of Law No.1/2017, which grants significantly improved access powers to the DGT, to allow it to obtain access to financial information about taxpayers from banks, for the purposes of a tax audit or a tax crimes investigation. In effect, the Regulation eliminates bank secrecy obligations (under banking law) in respect of information requests from the DGT. A previous attempt to include such a measure in the *General Provisions and Taxation Procedure Law No. 6 of 1983 (as amended)* was not successful, and the new Regulation goes some way towards addressing the OECD's 2012 recommendation i.e., by allowing the DGT better access to third party information.

Paragraph b of the Preamble to this Regulation states that it has been made because: "Indonesia has entered into an international tax treaty which requires Indonesia to meet the commitment to participate in the implementation of the Automatic Exchange of Financial Account". This is noteworthy, as it highlights how compliance with international tax treaty obligations in combination with the use of regulations can be used domestically to achieve needed tax law reforms, without going through the parliamentary legislative process, which might otherwise be problematic. In conjunction with the adoption of Regulation in Lieu of Law No.1/2017, the Indonesian Ministry of Finance also issued a new regulation (PMK-39) to "implement the terms in the bilateral and multilateral international treaties that Indonesia has agreed with its partner countries", and to explain the mechanism for exchanging data as well as the type of data and information that can be exchanged in compliance with the Exchange of Information obligations.[67]

---

65 Ibid.

66 DGT 2023 (n 2).

67 Deloitte Indonesia, *Indonesia Tax Info – June 2017 Edition* (2017).

While there have been suggestions from time to time that further tax administration changes may be imminent, to date, no substantive changes have been made.[68] As a result, the need for further tax administration reform to improve tax compliance effectiveness continues to be pressed in later Indonesian country reports by international economic agencies such as the OECD and IMF.[69] Notwithstanding these calls, the recommendations that risk-based audit strategies be adopted and that the mandatory "refund audit" requirements should be removed have still not been adopted by the DGT and refund-related audits continue to comprise a substantial proportion of tax compliance activity conducted by DGT auditors.

However, one positive change that has been implemented in Indonesia more recently, consistent with previous recommendations made by the World Bank and IMF, relates to the imposition of penalties, which were previously fixed at a rate of 2% per month up to a maximum of 48%. Late payment penalties are now based on prevailing interest rates, and other penalties (for example, following a voluntary disclosure or a tax audit) incorporate both a penalty element and an interest element.[70]

IV CONCLUSION

It has been observed that "Indonesia's income-tax system is well-designed in principle" but that "the main problems appear to lie in tax policy and in tax administration"[71] and the findings here are consistent with that statement: Indonesia has developed a well-designed, broad-based and comprehensive tax system, albeit with some design idiosyncrasies such as the very high (by global standards) VAT turnover registration threshold. In its Annual Report, the DGT presents itself as an open and transparent agency which is embarking on a transformation process with a focus on improving its use of tax data and technology. It is open to assistance from international development agencies.

Whilst Indonesia's constitutional and political circumstances mean that achieving major tax legislative reform can be problematic, this is offset by the considerable scope and flexibility

---

68 See, eg: Sri Mulyani Indrawati, Elan Satriawan & Abdurohman, "Indonesia's Fiscal Policy in the Aftermath of the Pandemic", Bulletin of Indonesian Economic Studies, Vol. 60, No. 1, 2024: 1, 27-29.

69 OECD (n 29) 14; IMF (n 30) 14.

70 PwC Indonesia, 'Tax Flash - July 2020'.

71 Hamilton-Hart and Schulze (n 1) 291.

available for revising and improving implementing regulations with respect to tax administration practices and procedures, which can be used to make improvements in the DGT's effectiveness, as explained in this article. Nevertheless, the problem remains that the Indonesian tax system generates a level of revenue that is well short of the Indonesian Ministry of Finance's 16% tax to GDP ratio target, yet several important recommendations made by the OECD and World Bank about improving the effectiveness of tax audit activity have still not been implemented.

There are legitimate reasons why some measures have not been adopted. For example, as explained in this article, the mandatory audit requirement for tax refund cases can only be changed by the more problematic path of legislative amendment. Also, the requirement that tax audits in refund cases must be completed within 12 months of the taxpayer making the refund request, is also set by legislation.

However, as has also been demonstrated here, other changes to the Indonesian tax audit approach could be implemented through changes to Ministerial and DGT regulations concerning the way in tax audit activity is conducted by the DGT, to allow audit resources to be allocated more efficiently and audit activities to be conducted in ways that better target high-risk taxpayers and taxpayer-behaviours. The effective implementation of such changes, perhaps in conjunction with foreign aid programs delivered by agencies such as Prospera in conjunction with the ATO, could lead to significant improvements in Indonesia's revenue collection performance. The DGT can learn from the experience of successful revenue collection agencies such as the ATO to change its methods and approaches to tax compliance enforcement and adopt a more holistic audit approach targeted at high-risk family and corporate groups. This would align with priorities identified by the OECD,[72] including making better use of data and identifying high risk audit targets, and greater focus on entities which have not registered to pay tax.

---

72 OECD (n 47).