DIRECTORATE GENERAL OF TAXES INSTITUTIONAL TRANSFORMATION PROGRAM

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Indonesian Taxation

❑ **Self Assessment System**
❑ **Types of Tax:**
- ❑ Income Tax
  - ❖ Individual   : progressive rate 5%-30%
  - ❖ Corporation   : flat rate 25% (starting from 2010)
  - ❖ Small and Medium Enterprise   : 1% from total gross profit (terms & condition applied)
- ❑ Value Added Tax   : flat rate 10%
- ❑ Property Tax: flat rate 5% (effective rate 0.1%)
- ❑ Stamp Duty : 2 rates
❑ **Tax Treaty:** 65 countries
❑ **Organization:**
- ❖ Head Office (1)
- ❖ Regional Office (31)
- ❖ Operational Office (331)
  - ➢ Large Taxpayers Office - LTO – (4)
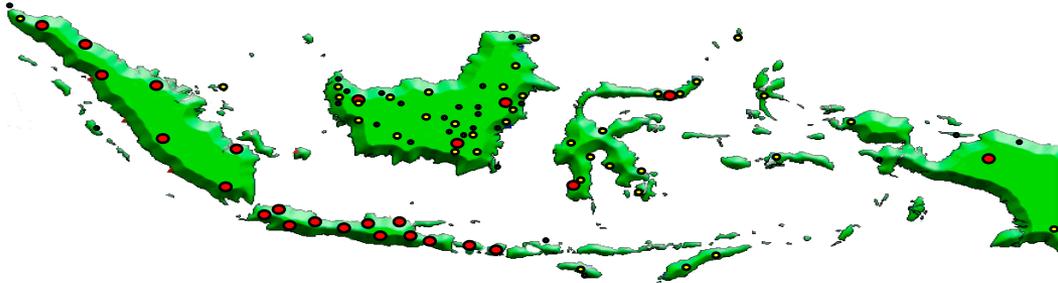 - ➢ Medium Taxpayers Office - MTO – (28), including special region tax offices
  - ➢ Small Taxpayers Office - STO – (299)
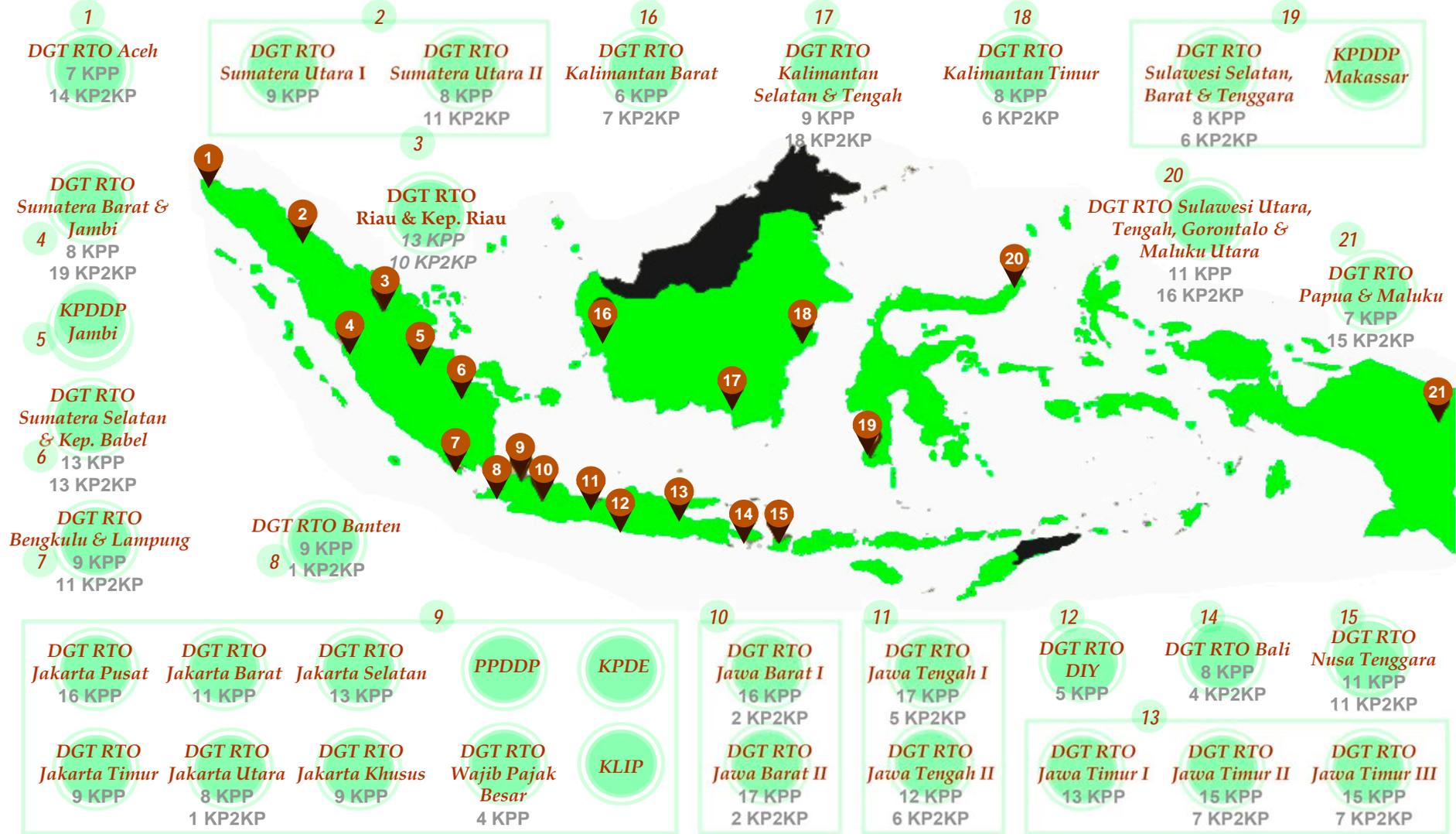❑ **Human Resources**
- ❖ ± 32,000 staff

SUMMARY OF TAX OFFICES

Type of Office	No. of Offices	Taxpayers Administered
Regional Office	31	-
Large Taxpayers Office	4	$\pm$ 300
Medium Taxpayers Office	19	$\pm$ 1.000
Special Region Tax Office	9	$\pm$ 1.000
Small Taxpayers Office	299	$\pm$ 50.000
TOTAL	331	
Tax Services, Dissemination, And Consultation Office (KP2KP)	207	
Data Processing Centre	4	
Call Centre	1	

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Coverage Area of 31 Tax Regional Offices

1 DGT RTO Aceh
7 KPP
14 KP2KP

2 DGT RTO Sumatera Utara I
9 KPP

DGT RTO Sumatera Utara II
8 KPP
11 KP2KP

3 DGT RTO Riau & Kep. Riau
13 KPP
10 KP2KP

4 DGT RTO Sumatera Barat & Jambi
8 KPP
19 KP2KP

5 KPDDP Jambi

6 DGT RTO Sumatera Selatan & Kep. Babel
13 KPP
13 KP2KP

7 DGT RTO Bengkulu & Lampung
9 KPP
11 KP2KP

8 DGT RTO Banten
9 KPP
1 KP2KP

16 DGT RTO Kalimantan Barat
6 KPP
7 KP2KP

17 DGT RTO Kalimantan Selatan & Tengah
9 KPP
18 KP2KP

18 DGT RTO Kalimantan Timur
8 KPP
6 KP2KP

19 DGT RTO Sulawesi Selatan, Barat & Tenggara
8 KPP
6 KP2KP

KPDDP Makassar

20 DGT RTO Sulawesi Utara, Tengah, Gorontalo & Maluku Utara
11 KPP
16 KP2KP

21 DGT RTO Papua & Maluku
7 KPP
15 KP2KP

9
DGT RTO Jakarta Pusat
16 KPP

DGT RTO Jakarta Barat
11 KPP

DGT RTO Jakarta Selatan
13 KPP

PPDDP

KPDE

DGT RTO Jakarta Timur
9 KPP

DGT RTO Jakarta Utara
8 KPP

DGT RTO Jakarta Khusus
9 KPP

DGT RTO Wajib Pajak Besar
4 KPP

KLIP

10 DGT RTO Jawa Barat I
16 KPP
2 KP2KP

DGT RTO Jawa Barat II
17 KPP
2 KP2KP

11 DGT RTO Jawa Tengah I
17 KPP
5 KP2KP

DGT RTO Jawa Tengah II
12 KPP
6 KP2KP

12 DGT RTO DIY
5 KPP

14 DGT RTO Bali
8 KPP
4 KP2KP

15 DGT RTO Nusa Tenggara
11 KPP
11 KP2KP

13 DGT RTO Jawa Timur I
13 KPP

DGT RTO Jawa Timur II
15 KPP
7 KP2KP

DGT RTO Jawa Timur III
15 KPP
7 KP2KP

31 Tax Regional Offices (TROs) for 34 Provinces
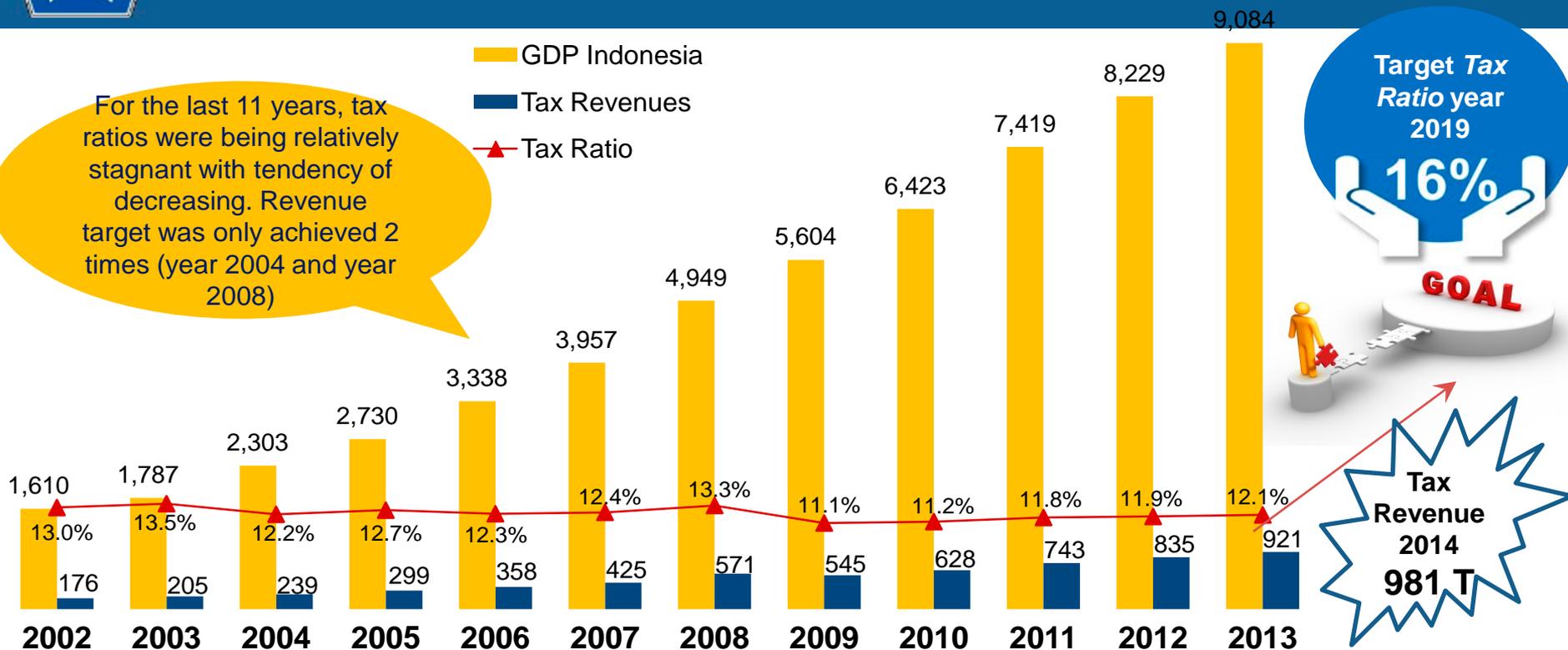### (9 TROs with area > 1 Province)

331 Tax Offices (TOs) for 511 Municipalities/Cities
(132 TOs with area > 1 Municipalities/Cities)

Challenge: Low Tax Revenue compare to GDP

For the last 11 years, tax ratios were being relatively stagnant with tendency of decreasing. Revenue target was only achieved 2 times (year 2004 and year 2008)

Target *Tax Ratio* year 2019

16%

GOAL

Tax Revenue 2014 981 T

Legend:
- GDP Indonesia
- Tax Revenues
- Tax Ratio

Year	GDP Indonesia	Tax Revenues	Tax Ratio
2002	1,610	176	13.0%
2003	1,787	205	13.5%
2004	2,303	239	12.2%
2005	2,730	299	12.7%
2006	3,338	358	12.3%
2007	3,957	425	12.4%
2008	4,949	571	13.3%
2009	5,604	545	11.1%
2010	6,423	628	11.2%
2011	7,419	743	11.8%
2012	8,229	835	11.9%
2013	9,084	921	12.1%

Description	Year											
	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
GDP Indonesia*	1.610	1.787	2.303	2.730	3.338	3.957	4.949	5.604	6.423	7.419	8.229	9.084
Tax Revenues by DGT*	176	205	239	299	358	425	571	545	628	743	835	921
Tax Ratio**	**13,0%**	**13,5%**	**12,2%**	**12,7%**	**12,3%**	**12,4%**	**13,3%**	**11,1%**	**11,2%**	**11,8%**	**11,9%**	**12,1%**
Realisation of Revenue Target	98%	97%	100%	99%	96%	98%	107%	94%	95%	97%	94%	93%

*) in Trillion Rupiah

**)including revenues from Customs and Excises. For year 2011, 2012, and 2013, Tax ratios are 10%, 10,1% and 10,13%

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Not Optimal Number of Tax Officers

Country	Number of Tax Officer	Number of Country Population	Tax Officer to Country Population Ratio
Germany	110K	80 mio	1:727
Australia	25K	25 mio	1:1.000
Japan	66K	120 mio	1:1.818
Indonesia	31K	240 mio	1:7.700

Number of Registered Taxpayers from year 2006 to 2012 have increased nearly 6 times, meanwhile number of Tax Officers are relatively stagnant.

2006	2007	2008	2009	2010	2011	2012	2013
4,478,032	6,645,060	10,212,067	15,911,576	19,112,590	22,319,073	24,812,569	28,002,205
148	214	328	500	605	703	792	868
30,196	31,034	31,151	31,825	31,590	31,733	31,316	32,270
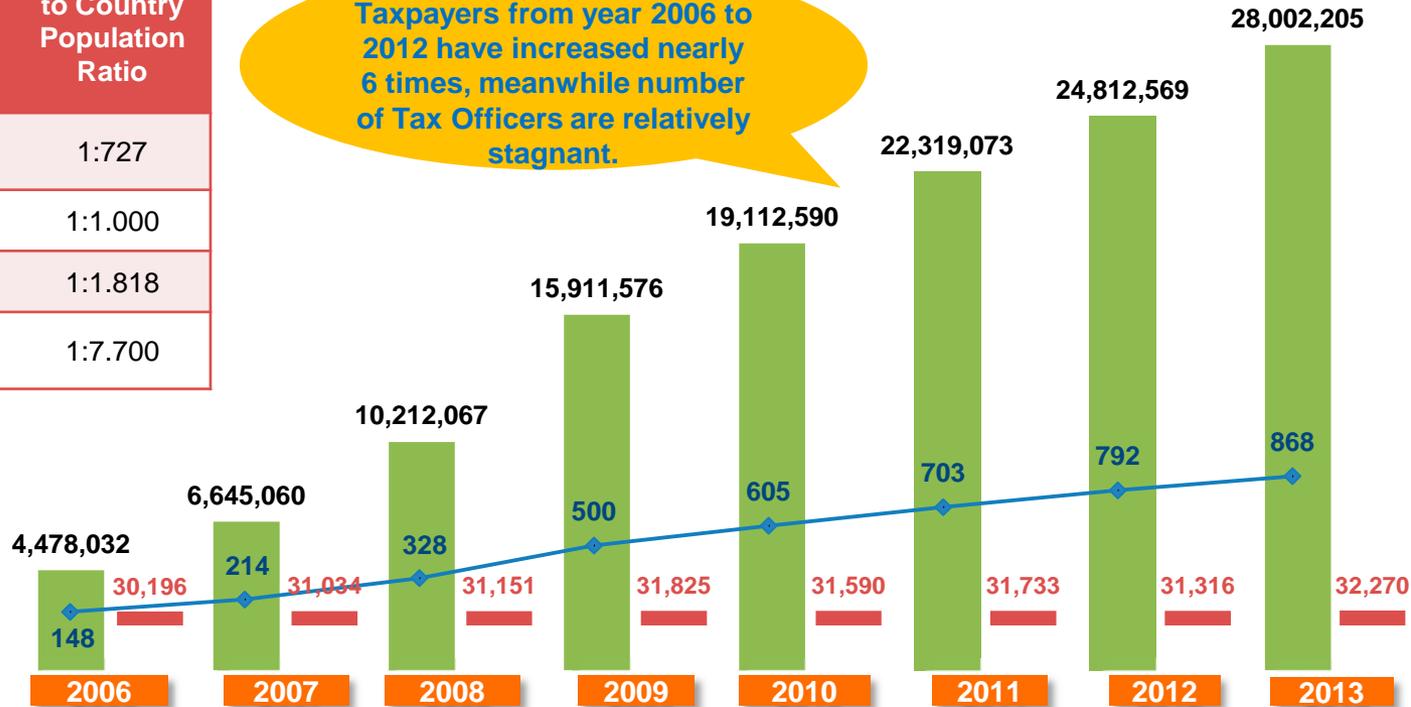
Description	Year							
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Number of Registered Taxpayers	4.478.032	6.645.060	10.212.067	15.911.576	19.112.590	22.319.073	24.812.569	28.002.205
Number of Tax Officers	30.196	31.034	31.151	31.825	31.590	31.733	31.316	32.270
Registered Taxpayers to Tax Officers ratio	148	214	328	500	605	703	792	868

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Challenges related to Administration

- Current DG Tax segmentation and tax office coverage does not cater to the diverse needs of taxpayers. There are no differentiation within SME segment;
- Criteria for assigning taxpayers to LTO, MTO and STO is not updated regularly;
- STOs have very burdensome coverage ratios, which are imbalanced across geographies:
  - Each STO serves ~250,000 potential taxpayers
  - Severe geographic imbalance
  - Revenue potency not fully captured
  - STO as the primary channel for serving individuals and SMEs
  - Format of STO is exactly the same as MTO and LTO (i.e., 8 sections with ~70-80 staffs)
- One-size-fits all regulation for audit procedures
- Access to data is limited; DGT must to follow long procedure to obtain data from other parties (eg. Banks)

Challenges related to Human Resources

- Insufficient number of auditors and Account Representatives (AR)
  - Auditors account for 14% of DG Tax workforce
  - ~4,500 auditors
  - ~6,800 ARs conduct both supervision and services function
- Challenges in Promotions and Transfers
  - Gender imbalance
  - Wide Geographic areas
- Improving on the job training system to increase skill and knowledge of staff across the nation
- Setting up employee's performance evaluation system (KPIs)

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Tax Administration Environment Changes

1945 — Nationalist, Centralized Era

1967
- Economic Liberalization under Authoritarian Regime
- WB/IMF: Structural Adjustment, Stabilization

1984
- High growth
- Tax Reforms: General Provisons, Income Tax, VAT, Property Tax

1998
- Financial Crisis leads to Political Turmoil
- Democratization
- Political changes
- IMF rescue package

2001
- IMF Letter of Intent (conditionalities)
- Corruption eradications
- Focus on taxpayer group (segmented)
- Service oriented and good governance
- Tax Administration Reform Phase I

2006
- Exit IMF program
- Taxation as major national income
- Towards good governance practices
- Modernization progress: LTOs, MTOs, and STOs
- Introduction of Transformation Directorates: HR, IT and Process Business
- Tax Administration Reform Phase 2

2014
- New Elected Government
- Tight National Budget, Fuel subsidy Cut
- Drastic increase in Tax Revenue Target
- **Institutional Transformation Program**

DGT Vision:
- High Tax Ratio
- High Taxpayer Compliance

"Excellent Services and Intensive Monitoring with Good Governance"

- High Voluntary of Tax Compliance
- High Trustworthy on Tax Administration
- High Integrity and Productivity of Tax Apparatus

Diagram elements: Change in Paradigm — Taxpayers Orientation, Equal Treatment, Simplification, Efficiency, ICT-based, Good Governance

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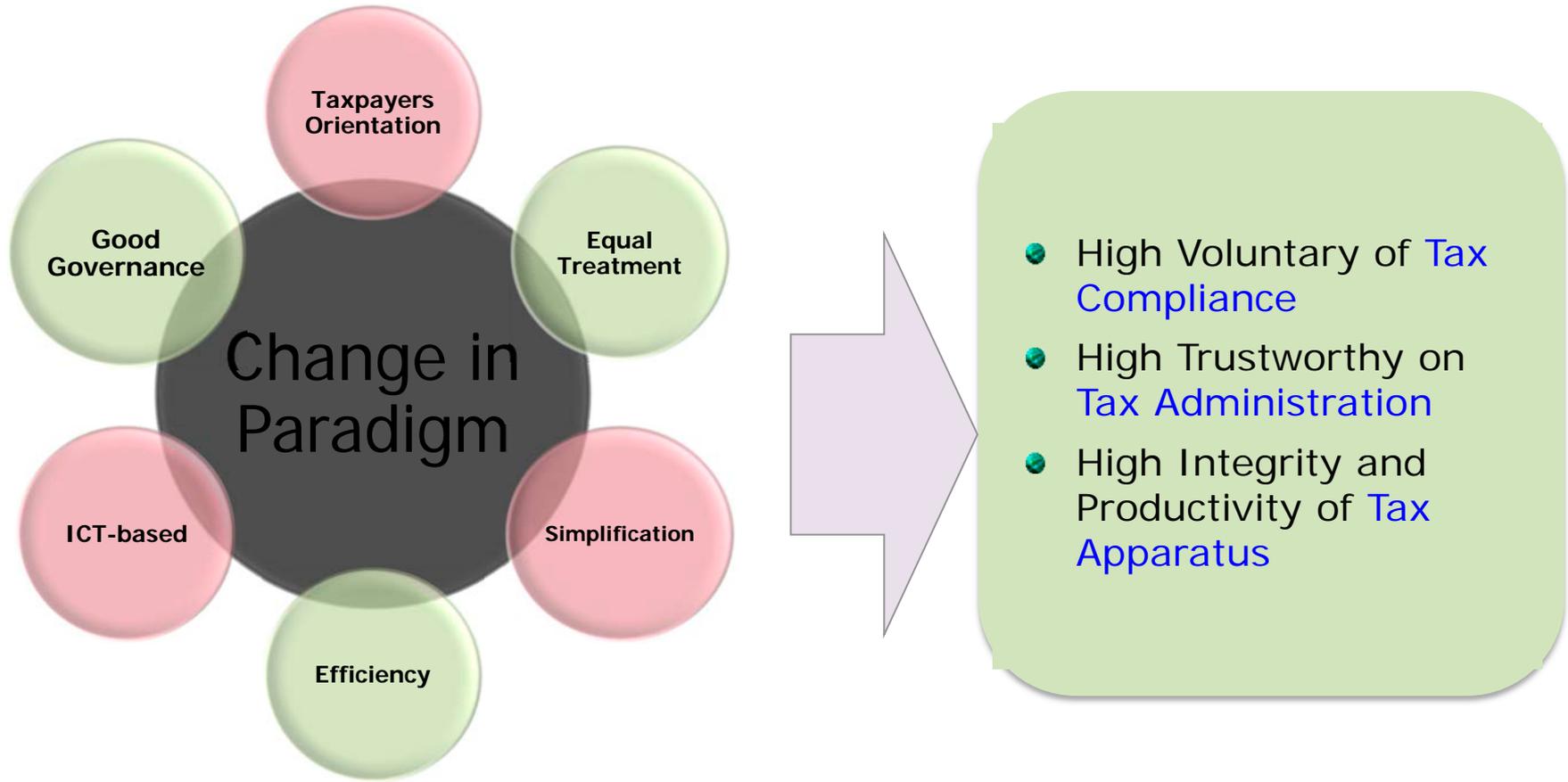
Vision and mission have been refined to reflect this aspiration

Vision

To be a **trusted** *tax administration institution that* **treats all taxpayers fairly** *and* **delivers excellent service through technology**

Emphasizes 'tax fairness'

Opportunity to leapfrog to 'advanced services' through technology

Mission

Improve the **welfare of all Indonesians** *by:*

- **Collecting revenues** *and* **enforcing the law equally** *to all taxpayers*

- *Making it* **easy** *for taxpayers to comply*

- *Staying at the* **forefront of relevant technology**

- *Attracting and developing* **best-in-class talent**

Inspirational and meaningful

What it means to treat taxpayers fairly

What it means to deliver excellent service

How services will be delivered

Employees as key stakeholder

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Given the vision and mission, the Transformation will emphasize tax fairness first, while investing in technology for service excellence

Initial emphasis on TAX FAIRNESS > **Shift towards SERVICE EXCELLENCE**

Establish DG Tax credibility and capture the deterrent effect
- Increase audit coverage; reduce time to audit
- Improve integrity of law enforcement
- Launch integrated communications

Offer relevant, advanced services to taxpayers
- Push for e-filing (and other e-services) at scale
- Shift aggressively to web and call centers

Lay the foundation for advanced services by improving data management & investing in IT
- Clean taxpayer registry
- Process tax returns faster via improved DPC
- Drive e-filing aggressively
- Link NPWP to e-KTP
- Revamp SIDJP

Data-driven taxpayer outreach and risk-based compliance
- Establish seamless access to 3rd party data for detection of the informal economy and for the compliance risk model (crm)
- Link compliance risk model to critical business processes

Secure the flexibility to attract and develop best-in-class talent; restructure the organization

The Transformation will carry out 4 Missions …

Collect revenues and enforce the law fairly

Attract and develop top Talent

Institutional Transformation Program

Make it easy for taxpayers to comply

Stay at the forefront of relevant technology
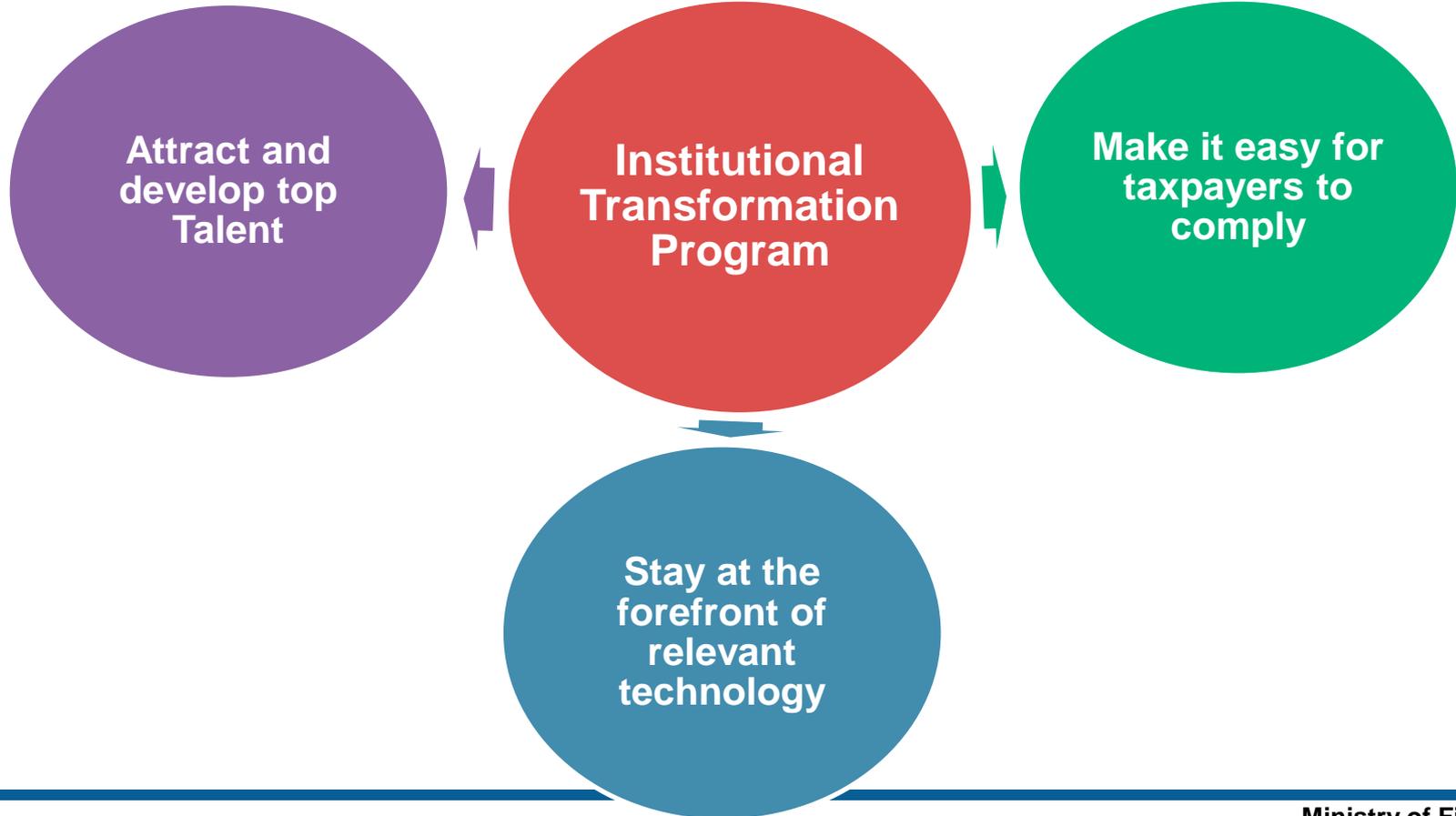
Aspiration will be achieved through 10 transformation themes...

Mission	Transformation themes
Collect revenues and enforce the law fairly	**I** Shift the **tax mix** to include *all* taxpayers
	II Enforce **risk-based compliance**
	III Improve the **integrity of law enforcement**
	IV Capture the deterrent effect with **integrated communications**
	V Strengthen **external partnerships**
Make it easy for taxpayers to comply	**VI** **Implement 'lean operations'** and **electronification**
	VII Shift to a **multi-channel service** model
Stay at the fore-front of relevant technology	**VIII** Revamp and integrate **IT systems**
Attract and develop top talent	**IX** Strengthen **human capital**
	X Empower the **organization**

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...which are supported by 16 initiatives

Transformation themes	Key initiatives

Collect revenues and enforce the law fairly

I	Shift the **tax mix** to include *all* taxpayers

1. Improve segmentation and coverage model of small taxpayers
2. Pursue the informal economy through an end-to-end approach
3. Revamp the VAT administration system

II	Enforce **risk-based compliance**

4. Develop a predictive, risk-based compliance model linked to business processes
5. Improve audit and collections effectiveness[1]

III	Improve the **integrity of law enforcement**

6. Ensure quality and consistency of law enforcement

IV	Capture the 'indirect effect' via **integrated communications**

7. Launch an integrated communications strategy

V	Strengthen **external partnerships**

8. Systematically engage 3rd parties for data, enforcement and taxpayer outreach

Make it easy for taxpayers to comply

VI	Implement **'lean' operations** and end-to-end **electronification**

9. Enhance tax offices
10. Selectively increase DPC coverage and improve data capturing capabilities
11. Migrate taxpayers to e-filing

VII	Shift to a **multi-channel service** model

12. Drastically increase call center capacity
13. Expand functionality of website

Stay at the forefront of relevant technology

VIII	Revamp and **integrate IT systems**

IT initiatives are implemented in coordination with MOF; details are provided in the ICT Blueprint

Attract and develop top talent

IX	Strengthen **human capital**

14. Re-align functional staff and selectively increase capacity

Cross-cutting HR initiatives on talent and performance management are implemented in coordination with MOF

X	Empower the **organization**

15. Restructure the organization
16. Secure flexibilities needed for the transformation

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Milestones for each initiative are outlined in the detailed Institutional Transformation Roadmap…

Transformation themes	Key initiatives	QUICK WINS (2013-2014) *Gain the license to reform*	Medium term (2015-2019) *Achieve operational excellence at scale*	Long term (2020-2025) *Institutionalize breakthroughs*
I — Shift the taxpayer mix to include *all* taxpayers	1 Improve segmentation and coverage model of small taxpayers	• Segmentation of small taxpayers refined	• Services offered at 3rd party branch networks (e.g., post office) by 2016 • Full roll-out of mobile tax units by 2017 • KP2KP revamped into "KPP-B"; selective increase in rural areas	• Significant shift to web and call center; KPP can be rationalized in urban areas
	2 Pursue the informal economy through an end-to-end approach	• Study on informality completed	• 100% of taxpayers with NPWP (linked to e-KTP) by 2017 • Informal economy captured sector-by-sector, through an end-to-end approach (until *crm* is implemented in 2018)	• Informal economy detected through comprehensive 3rd party data
	3 Revamp VAT administration system	• Testing of e-invoice client application	• Mandatory roll out of e-invoice by 2016	• Real-time validation for VAT e-invoice
II — Enforce risk-based compliance	4 Develop a predictive, risk-based compliance model linked to business processes	• Risk engine prototype piloted • Taxpayer registry data cleaned for inconsistencies and duplicates	• Automated and centralized risk engine completed (by 2018) • Tailored business processes implemented nationally, including audit (e.g., "lean" approach for STO), collections, service and education	• Intelligence-led risk identification; predictive power of risk engine enhanced with comprehensive 3rd party data
	5 Improve audit and collections effectiveness *(until CRM is implemented)*	• Differentiated audit and collections approach launched (e.g. SWAT team with highly experienced and specialized skills	• Simplified audit steps • Improved case allocation • Improved tools and worksheet template • Transition to CRM	
III — Improve integrity of law enforcement	6 Ensure quality and consistency of law enforcement	• Workload analysis of law enforcement employees completed	• Peer review and quality assurance process integrated with HR management system e.g., KPIs, reward & punishment • Full roll-out of integrated case workflow management (potency revenue, audit, objection, appeal & investigation)	• Comprehensive knowledge management system across audit, objection, appeal & investigation function
IV — Maximize the 'deterrent effect' via integrated communications	7 Launch an integrated communications strategy	• Credible reputation established internally & among government agencies • Support and commitment from top national leadership	• Taxpayers consider DG Tax a trusted institution, striking the balance between law enforcement and taxpayer service • Tax education becomes part of structured and integrated curriculum by 2019	• Taxpayers are aware of their obligation to pay tax, understand the consequences of non-compliance, and believe that DG Tax is making it easy for them to comply
V — Strengthen partnerships with external parties	8 Systematically engage 3rd parties for data, enforcement and taxpayer outreach	• Top-down mandate secured (e.g., President) & minister-level engagement • Law enforcement partnerships strengthened	• Priority 3rd parties systems linked to DG Tax (e.g., e-KTP, BI) for the risk-based compliance model	• Full access to all 3rd party data; seamless inter-linkage of IT system and data exchange
VI — Implement 'lean' operations and end-to-end electronification	9 Enhance tax offices	• Standardized document management system in tax offices • Consistent taxpayer service interaction in tax offices • e-filing available for single-income individuals	• Paper-based tax returns for single-income individuals (1770SS) can be received through any tax offices and sent directly to DPC by 2015; DPC coverage selectively expanded until 2019 • Universal e-filing capability platform available for all type of tax return in DG Tax by 2018 • Nationwide archive digitalization by 2018 • All paper-based tax return sent directly to DPC by 2019	• Universal adoption of e-filing • Paper based tax returns remain only in most remote areas; submission can be done directly to DPC for processing
	10 Selectively increase DPC coverage and improve data capturing capabilities			
	11 Migrate taxpayers to e-filing			
VII — Shift to a multi-channel service model	12 Drastically increase call centers capacity	• 2-3x increase in manpower; IVR system piloted • Website redesigned	• Single taxpayer account, payments and select services (e.g., tax refund status) available online; service offerings integrated with call center	• Continued shift away from tax offices towards alternate channels
	13 Expand functionality of website			
VIII — Revamp and integrate IT systems		*IT initiatives are implemented in coordination with MOF; details are provided in the ICT Blueprint*		
IX — Secure and strengthen human capital	14 Re-align functional staff and selectively increase capacity	• Business processes adjusted to re-align account representative (AR) role in the short term	• 75% of ARs transition to become auditors; remaining 25% form part of new "consultation section" within KPPs • KPP enhanced to ensure separation of roles	• Increased automation results in reduced need for manpower in labor intensive roles
		Cross-cutting HR initiatives on talent and performance management are implemented in coordination with MOF		
X — Empower the organization	15 Re-structure the organization	• Approval from MenPan, President and Parliament for DG Tax to reduce span of control, set compensation, manage performance, and set own budget	• Functional organization structure with dedicated offices for large taxpayers by 2019; audit becomes increasingly specialized • Employee value proposition is competitive with public and private sector	• DG Tax is a "privately run government revenue agency" which is structured around customer segments
	16 Secure flexibilities needed for the transformation			

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...that require a fundamental changes in operational model

Transformation themes	From…	To…
1 Taxpayer mix	▪ Corporate-focused, export-reliant ▪ One-to-one extensification; <50% compliance	▪ 100% of Indonesian taxpayers with an NPWP ▪ Data-driven outreach with 100% compliance
2 Risk-based compliance	▪ Time consumed by low-risk taxpayers ▪ One-size-fits all approach	▪ Data-driven compliance risk model (CRM) enables business processes to be tailored to risk level (e.g., SWAT team vs "lean" approach)
3 Integrity law enforcement	▪ Perception of lack of transparency, consistency, and integrity	▪ Rigorous internal controls (e.g., peer reviews), knowledge-based tools and proper incentives
4 Integrated communications	▪ Audits and investigations not publicized ▪ Communications driven by single directorate	▪ Deterrent effect captured ▪ Integrated governance and processes
5 External partnerships	▪ Bottom-up, one-by-one engagement ▪ Low cooperation	▪ Top down engagement for data, enforcement and taxpayer outreach ▪ Intensive cooperation (e.g., stakeholder labs)
6 Lean operations and electronification	▪ Extremely low e-filing rate ▪ Paper-based and labor intensive processes ▪ Limited digitization capacity, low accuracy	▪ e-filing available for all Indonesians ▪ Streamlined returns processing in <15 days ▪ Selective expansion of data processing centers
7 Multi-channel service	▪ Tax-office centric service model (high touch, high cost) ▪ Extremely low call center capacity	▪ Call center capacity expanded 10x ▪ Full suite of e-services offered on pajak.go.id (e.g., e-payment, single sign on)
8 Revamped IT	▪ Data is not clean, no 'single source of truth' ▪ Fragmented systems and manual processes	▪ Systems centralized and rationalized ▪ Relevant technologies adopted
9 Human capital	▪ Insufficient manpower to cover new taxpayers ▪ Lack of functional staff ▪ No performance differentiation	▪ Selective increase in capacity (e.g., auditors) ▪ End-to-end talent and performance management
10 Empowered organization	▪ Bureaucratic processes; wide span of control ▪ Limited flexibilities	▪ Revamped organization structure ▪ DG Tax as a "privately run government agency"

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Initial focus on TAX FAIRNESS → **Shift towards SERVICE EXCELLENCE**

Short term (2013-2014)
Gain the license to reform

- Highly skilled '**SWAT team' of auditors, lawyers and bailiffs** serve large, high-risk taxpayers
- Up to **700,000 new e-filers**
- **Tax returns processing** time reduced by 50%
- **Call center** expanded 2-3x
- Approval secured to **reduce span of control**, offer **competitive compensation** and make major investments in **IT infrastructure**

Medium term (2015-2019)
Establish operational and service excellence at scale

- **100% of Indonesians registered**, with their NPWP fully linked to e-KTP
- **25 million e-filers** for all types of taxes; incl. access to **single taxpayer account**
- Paper tax returns **sent directly to data processing centers** for digitization
- Every citizen with access to a **physical point of contact** in their district
- Access to **priority 3rd party data** aids in extensification and intensification; informality is addressed **sector-by-sector**
- **Compliance risk model** enables segmented approach for service, education and law enforcement
- DG Tax operates as a **"privately run government agency"**

Long term (2020-2025)
Institutionalize breakthroughs

- Full suite of services **available electronically** (e.g., e-payment); **removal of paper** in processing
- Seamless **access to 3rd party data** enables easier detection of the informal economy; and allows for a fully automated risk-based compliance model
- **Process automation** at scale (e.g., automation of case allocation, risk rating of refunds)
- Organization structure shifts to become **taxpayer-centric**

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The Transformation is expected to deliver several high-impact outcomes (2/2)

- Up to **700,000 new e-filers**

- **100% of Indonesians registered**, with their NPWP fully linked to e-KTP

- **25 million e-filers** for all types of taxes; incl. access to **single taxpayer account**

- Paper tax returns **sent directly to data processing centers** for digitization

- **Compliance risk model** enables segmented approach for service, education and law enforcement

End of Presentation
Thank You